

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	37.00	37.00	37.00	37.00	37.00	37.00	0.00	0.00%
Personal Services	2,464,400	2,704,811	2,745,823	2,747,170	5,169,211	5,492,993	323,782	6.26%
Operating Expenses	920,956	719,479	1,018,344	1,015,659	1,640,435	2,034,003	393,568	23.99%
Total Costs	\$3,385,356	\$3,424,290	\$3,764,167	\$3,762,829	\$6,809,646	\$7,526,996	\$717,350	10.53%
State Special	3,385,356	3,424,290	3,764,167	3,762,829	6,809,646	7,526,996	717,350	10.53%
Total Funds	\$3,385,356	\$3,424,290	\$3,764,167	\$3,762,829	\$6,809,646	\$7,526,996	\$717,350	10.53%

Program Description

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

- Banks and trust companies
- Credit unions
- Consumer finance companies
- Sales finance companies
- Deferred deposit lender
- Escrow companies

The division also licenses and examines mortgage brokers and broker branch offices, mortgage lenders and lender branch offices, mortgage servicers and mortgage servicer branch offices, and mortgage loan originators.

The safety and soundness of Montana state chartered banks and credit unions, which hold over \$25 billion in assets as of July, 2012, is supervised by the division. Supervision of regulated financial institutions is accomplished primarily through examinations. Banks are statutorily required to be examined at least once every 24 months. Credit unions are examined at least once in every 18-month intervals. Consumer loan, mortgage broker, deferred deposit loan, title loan companies, escrow companies, and sales finance companies may be examined at any time.

The examinations investigate the methods of operation and review compliance with state and federal financial and banking laws. The supervision assures the protection of bank and credit union depositors and determines whether the institutions are operating in a safe and sound manner. The division examines mortgage brokers and loan originators to assure disclosures are provided to Montana borrowers in accordance with federal and state laws. In addition, the division provides a consumer complaint process to the general public to assist with the resolution of complaints against the financial institutions under its regulation.

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

Program Highlights

<p>Banking and Financial Division Major Budget Highlights</p>
<ul style="list-style-type: none"> ◆ The division is solely funded through state special revenues from fees paid by regulated financial institutions ◆ Statewide present law adjustments for the division increase personal services due to high turnover of bank examiner positions
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ◆ State special revenue supporting the division has a fund balance that is 269% above a 60-day working capital need

Personal services increase between biennia due to high turnover in the division during FY 2012. In FY 2012, 32.4% of the division’s 37 positions were vacant at least 21.7% of the year. According to the division, significant recruitment and retention problems exist within the division due in part to the pay freeze. Other issues related to staff retention include:

- Significant travel associated with examinations
- Workplace conditions as bank examiners may generate concern and anxiety among the bank employees being examined

The division has 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

A review of 20 positions included in the broadband pay plan shows that as of June 5, 2012, 8 positions or 40% of the workforce’s salaries were below 80% of the market midpoint for the positions. According to the division, one of the issues related to these positions is an inability of state salaries to compete with federal government and private sector salaries. Many of the staff are trained by the state and then transfer to higher paying positions with the federal government or private sector.

In addition, five of the staff will be eligible for retirement during the 2015 biennium. Two of the five are members of the division's examination staff and three are members of the division's senior management team. Succession planning of senior management and examiners is a priority of the division.

<p>LFD COMMENT</p>	<p>Due to the high number of positions that were vacant the division realized savings of \$230,000 in personal services above the legislatively budgeted vacancy savings of \$112,772. The division used the funds to acquire a database that:</p> <ul style="list-style-type: none"> ○ Consolidated the division's current and anticipated future business processes into one central database ○ Provided remote access to field staff <p>The database is a commercial off-the-shelf (COTS) system with ongoing support features including data synchronization with the federally mandated National Mortgage Licensing System. According to the division, increased efficiencies will result from:</p> <ul style="list-style-type: none"> ○ Improved data access for both office and field employees ○ Secure transfer of financial information and documents from regulated entities and the public ○ Online payment processing ○ Built-in workflows that allow for cross-training and improved performance management.
---------------------------	--

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - Banking And Financial Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
State Special Total	\$7,526,996	\$0	\$0	\$7,526,996	100.0%		
02077 Financial Institutions Div	\$7,526,996	\$0	\$0	\$7,526,996	100.0%		
Total All Funds	\$7,526,996	\$0	\$0	\$7,526,996	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

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

State Special Revenue Fund Balance 269% Above 60 Day Working Capital Needs

The fund balance in the state special revenue fund that supports the operations of the Banking and Financial Divisions has grown significantly since FY 2009, from \$0.45 million at the beginning of FY 2009 to \$2.14 million at the end of FY 2012, or a 375% increase over the period. Figure 16 shows the estimated fund balance for the fund based on static revenues and budgeted expenditures.

Figure 16

Department of Administration Banking and Financial Division Financial Institution				
	FY 2012	FY 2013	FY 2014	FY 2015
Beginning Fund Balance	\$1,734,159	\$2,141,953	\$2,141,953	\$2,141,953
Revenues	3,934,237	3,934,237	3,934,237	3,934,237
Expenditures				
Personal Services	2,463,295	2,704,811	2,745,823	2,747,170
Operating Expenses	<u>1,063,149</u>	<u>719,479</u>	<u>1,018,344</u>	<u>1,015,659</u>
Total Expenditures	\$3,526,444	\$3,424,290	\$3,764,167	\$3,762,829
Ending Fund Balance	<u>\$2,141,953</u>	<u>\$2,651,900</u>	<u>\$2,312,023</u>	<u>\$2,313,361</u>
60 day working capital	\$587,741	\$570,715	\$627,361	\$627,138
% Above working capital	264.44%	364.66%	268.53%	268.88%

As shown, the ending fund balance in FY 2015 will be 269% above the funding needed to maintain 60 days of operating capital. The figure shows increasing fund balance in spite of increased costs for personal services and operating expenditures.

The majority of the revenues collected by the division are fees that are set in rule. Based on the increasing fund balance, fees are not commensurate with the cost of providing the program. In part due to the increased fund balance, in 2012 the department adopted a one-time 50% reduction in the semiannual assessment for banks.

LFD Budget Analysis

A-159

2015 Biennium

LFD ISSUE CONT.	As stated in the notice, the department is expecting a significant change in the number of state-chartered banks in calendar year 2012 and will be reviewing the assessment rates after the impact of the change is known.
<p>The legislature may wish to discuss with the division proposed permanent changes to the assessments during its budget deliberations. Topics would include the changes in the number of state-chartered banks, the proposed change to the fees, revenue impacts of the proposed changes, the effect on fund balance, and other assessments and fees the department is considering changing.</p>	
<p>Legislative Option Discuss permanent changes in bank assessments and other fees assessed financial institutions with the division in light of the increasing fund balance.</p>	

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	3,385,356	3,385,356	6,770,712	89.95%
Statewide PL Adjustments	0	0	0	0.00%	280,742	279,971	560,713	7.45%
Other PL Adjustments	0	0	0	0.00%	6,431	5,874	12,305	0.16%
New Proposals	0	0	0	0.00%	91,638	91,628	183,266	2.43%
Total Budget	\$0	\$0	\$0		\$3,764,167	\$3,762,829	\$7,526,996	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----				-----Fiscal 2015-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					395,822					397,226
Vacancy Savings					(114,399)					(114,456)
Inflation/Deflation					(1,831)					(1,091)
Fixed Costs					1,150					(1,708)
Total Statewide Present Law Adjustments		\$0	\$280,742	\$0	\$280,742		\$0	\$279,971	\$0	\$279,971
DP 102 - Allocate Department Indirect/Admin Costs	0.00	0	6,431	0	6,431	0.00	0	5,874	0	5,874
Total Other Present Law Adjustments	0.00	\$0	\$6,431	\$0	\$6,431	0.00	\$0	\$5,874	\$0	\$5,874
Grand Total All Present Law Adjustments	0.00	\$0	\$287,173	\$0	\$287,173	0.00	\$0	\$285,845	\$0	\$285,845

DP 102 - Allocate department indirect/admin costs – The executive requests funding for the department’s indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

New Proposals	-----Fiscal 2014-----					-----Fiscal 2015-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1401 - Licensing and Enforcement System Maintenance	14	0.00	0	92,000	0	92,000	0.00	0	92,000	0	92,000
DP 6101 - Professional Development Center Fee Allocation	14	0.00	0	(362)	0	(362)	0.00	0	(372)	0	(372)
Total	0.00	\$0	\$91,638	\$0	\$91,638	0.00	\$0	\$91,628	\$0	\$91,628	

DP 1401 - Licensing and Enforcement System Maintenance - The Banking and Financial Division is requesting \$184,000 for the 2015 biennium for ongoing support, maintenance, and hosting of the COTS database. The division's current fee structure supports this project and no fee increases are anticipated. Cost savings would be recognized by improved efficiency, improved communication with customers, and increased security of sensitive documents. The project is part of the overall department's IT strategic plan.

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the State Human Resources Division in this narrative.