

Office of the
Legislative Fiscal Analyst

FY 2001 Budget Recommendations

Joint Appropriations Subcommittee for
Commerce and Revenue

Department of Financial Institutions

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1.0 Department of Financial Institutions

Summary

The Department of Financial Institutions regulates the deposit taking state chartered institutions in the State of Utah. This includes banks and credit unions. The assets of these regulated businesses have grown in recent years. The Year 2000 challenge will have a significant impact on this industry.

Funding for the Department is from a General Fund Restricted Account for Financial Institutions. Fees are collected on assets and some examinations (UCA 7-1-401,402, 403). These funds are used solely for the regulation of financial institutions. Funds remaining at the end of the year lapse back to the restricted account.

Department Mission Statement

The mission of the Department of Financial Institutions is to promote the availability of sound financial services in the State of Utah through chartering, regulating, and supervising financial institutions under the Department's jurisdiction.

In the case of depository institutions, the statutory charge is to charter, regulate, supervise and safeguard the interest of shareholders, members, depositors, and borrowers, through on site examinations and remedial action orders. The primary activity of the department is the examination of supervised depository institutions to determine their financial strength and solvency.

In the case of persons or entities that provide financial services to the public, the statutory requirement is that credit terms extended to consumers in the State of Utah be lawful and easily understood.

Utah Tomorrow

The Department of Financial Institutions has been involved with Utah Tomorrow since its inception. Benchmarks have been established in the areas of Free Enterprise and Regulatory Systems and Economic Development. The Department of Financial Institutions contributes to the State business climate and to the free enterprise opportunities for growth and expansion within the State.

Financial Summary

	Analyst FY 2001 Base	Analyst FY 2001 Changes	Analyst FY 2001 Total
Financing			
GFR - Financial Institutions	\$2,746,500	\$54,800	\$2,801,300
Total	\$2,746,500	\$54,800	\$2,801,300
Programs			
Administration	\$2,655,700	\$54,800	\$2,710,500
Building Operations and Maintenance	90,800		90,800
Total	\$2,746,500	\$54,800	\$2,801,300
FTE	39.0		39.0

2.0 Budget Highlights: Financial Institutions

2.1 Check Cashing Registration Act

The 1999 Legislature passed Senate Bill 57 “Regulation of Check Cashing” on the last night of the General Session, after the appropriations acts had been passed. This act places the registration and regulation of check cashiers under the Department of Financial Institutions. The fiscal note was for one FTE and funding of \$54,800 General Fund Restricted – Financial Institutions. The funding would be paid from the fees charged to the check cashiers. An appropriation is required to authorize funding from the fees that have been collected for both FY 2001 and FY 2000. The Analyst recommends one FTE and FY 2001 funding of \$54,800 General Fund Restricted – Financial Institutions.

General Fund Restricted – Financial Institutions \$54,800

2.2 Base Budget Reduction

The Department has created an efficiency of operations. Turnover savings and operations have created a savings of approximately \$30,000. This reduction could be made to the Department’s budget. Funds not used lapse back to the Department’s restricted account. This account is dedicated entirely to the Department of Financial Institutions.

3.1 Programs: Financial Institutions-Administration

Recommendation The Analyst recommends funding of \$2,710,500 General Fund Restricted - Financial Institutions. This funding is for all Department personnel and operations.

Financial Summary

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
GFR - Financial Institution	\$2,742,000	\$2,679,400	\$2,710,500	\$31,100
Beginning Nonlapsing	37,700			
Lapsing Balance	(245,900)			
Total	\$2,533,800	\$2,679,400	\$2,710,500	\$31,100
Expenditures				
Personal Services	\$2,078,000	\$2,371,300	\$2,402,100	\$30,800
In-State Travel	53,200	54,900	55,900	1,000
Out of State Travel	75,000	64,300	64,300	
Current Expense	125,700	138,400	137,700	(700)
DP Current Expense	70,400	50,500	50,500	
DP Capital Outlay	131,500			
Total	\$2,533,800	\$2,679,400	\$2,710,500	\$31,100
FTE	38.5	39.0	39.0	

Summary

The Department of Financial Institutions regulates 23 banks, 97 credit unions, 19 industrial loan companies and one savings and loan. This totals 140 institutions. The Department employs 39 personnel.

Two primary Department goals are: 1) to do the number of examinations required to maintain the health of the State-chartered banking and credit union systems in Utah; and 2) to be accredited by the financial institution peers in the new interstate banking environment.

Revenue is generated by the Department and used for the regulation of the financial institutions chartered by the State.

Department Revenue

The Department of Financial Institutions has a dedicated source of revenue from fees approved by the Legislature. These funds are deposited into a General Fund restricted account identified for the Department. All allocations of funds to the Department must be appropriated by the Legislature. Unexpended funds at the end of the year automatically lapse back to the Restricted General Fund Account for the Department of Financial Institutions.

Because a large fund balance was building, a fee reduction enacted by the Legislature went into effect during FY 1998. It is estimated that revenue will continue to grow as both assets and the number of financial institutions are expected to increase. Projections indicate continued growth in assets and institutions which should increase the fund for future budgets.

Financial Institutions General Fund Restricted Revenue Collections	
FY 1995 Actual	\$1,951,479
FY 1996 Actual	2,156,990
FY 1997 Actual	2,444,899
FY 1998 Actual	2,321,554
FY 1999 Actual	2,539,205
FY 2000 Estimated	2,767,300
FY 2001 Projected	3,065,800

**Check Cashing
Registration Act**

The 1999 Legislature passed Senate Bill 57 on the last night of the General Session, after the appropriations acts had been passed. This act places the registration and regulation of check cashiers under the Department of Financial Services. The fiscal note was for one FTE and funding of \$54,800 General Fund Restricted – Financial Institutions. The funding would be paid from the fees charged to the check cashiers. An appropriation is required to authorize funding from the fees that have been collected for both FY 2001 and FY 2000.

General Fund Restricted – Financial Institutions \$54,800

Y2K Report

The Department examined and supervised all State-chartered financial institutions for readiness for Y2K. All banks, credit unions, industrial loan corporations and savings and loan associations under the Department’s jurisdiction completed the Y2K requirements as set forth by the FFIEC.

**Performance
Measures**

The Department of Financial Institutions has established a series of performance measures and tracking items. The following items are a partial listing to indicate Department activity.

The additional types of examinations that must be done are listed above. Increased revenue is expected due to the growth in the number of institutions and their assets.

Examinations	FY 1996	FY 1997	FY 1998	FY 1999
Safety and Soundness				
Banks/ILC/S&Ls	25	32	28	26
Credit Unions	94	85	91	81
Specialty				
All Types	7	3	6	2
Year 2000	0	0	80	119
Compliance	0	0	1	
Assets in Financial Institutions Under Department Jurisdiction				
	\$11.6B	\$20.7B	\$21.0B	\$25.7B

3.2 Programs: Financial Institutions-Office Lease

Recommendation The Analyst recommends funding of \$90,800. This continues the lease at the same rate as FY 2000. Funding is from the General Fund Restricted Account for Financial Institutions.

Financial Summary

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
GFR - Financial Institutor	\$90,800	\$90,800	\$90,800	
Lapsing Balance	(5,900)			
Total	\$84,900	\$90,800	\$90,800	\$0
Expenditures				
Current Expense	\$84,900	\$90,800	\$90,800	
Total	\$84,900	\$90,800	\$90,800	\$0

Summary

The Department of Financial Institutions is located at 324 South State Street on the second floor. This prime Salt Lake City office space is located in an area of escalating lease expenses. The parking garage is being rebuilt. The project has been in process over one year. Parking is provided from third party vendors.

The current lease was negotiated four years ago and expires in 2005. The rate is \$11.75 per square foot with no escalation clause. Other agencies that have had to renew their leases are considering moving. The Department's lease is well within the acceptable range established by the Division of Facilities and Construction Management (DFCM).

Performance Measures

No performance measures for this area.

4.0 Tables: Department of Financial Institutions

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Financing	Actual	Actual	Actual	Estimated	Analyst
GFR - Financial Institutions	\$2,152,500	\$2,503,300	\$2,832,800	\$2,770,200	\$2,801,300
Beginning Nonlapsing			37,700		
Closing Nonlapsing		(37,700)			
Lapsing Balance	(16,200)	(10,200)	(251,800)		
Total	\$2,136,300	\$2,455,400	\$2,618,700	\$2,770,200	\$2,801,300
% Change		14.9%	6.7%	5.8%	1.1%
Programs					
Administration	\$2,056,600	\$2,374,800	\$2,533,800	\$2,679,400	\$2,710,500
Building Operations and Maintenance	79,700	80,600	84,900	90,800	90,800
Total	\$2,136,300	\$2,455,400	\$2,618,700	\$2,770,200	\$2,801,300
Expenditures					
Personal Services	\$1,797,200	\$2,046,100	\$2,078,000	\$2,371,300	\$2,402,100
In-State Travel	46,400	56,400	53,200	54,900	55,900
Out of State Travel	42,300	52,300	75,000	64,300	64,300
Current Expense	199,000	229,300	210,600	229,200	228,500
DP Current Expense	34,100	32,800	70,400	50,500	50,500
DP Capital Outlay	5,200	16,300	131,500		
Capital Outlay	12,100				
Other Charges/Pass Thru		22,200			
Total	\$2,136,300	\$2,455,400	\$2,618,700	\$2,770,200	\$2,801,300
FTE	34.0	38.5	38.5	39.0	39.0