



# FINANCIAL INSTITUTIONS FISCAL NOTE AND BUILDING BLOCK FOLLOW-UP

BUSINESS, ECONOMIC DEVELOPMENT AND LABOR APPROPRIATIONS SUBCOMMITTEE  
STAFF: CLARE TOBIN LENCE

BUDGET BRIEF

## **SUMMARY**

This report follows-up on select fiscal notes and budget actions from past legislative sessions. For each item, the report includes a stop light (red, yellow, green) for implementation status, budget accuracy, and, where available, performance. It details original cost and/or revenue estimates, legislative appropriations, and actual experience. It is intended to create a feed-back loop that improves future estimates and initiatives.

# FISCAL NOTE AND BUDGET ITEM FOLLOW-UP REPORT

## 2014 G.S. Director of administrative services

Committee: BEDL

Analyst: Clare Lence

| Cost Estimate | Revenue Estimate | Original Approp. | Changes | Subtotal  | Experienced | Difference |
|---------------|------------------|------------------|---------|-----------|-------------|------------|
| \$121,700     | \$0              | \$121,700        | \$0     | \$121,700 | \$119,500   | \$2,200    |

### Explanation

The Legislature appropriated \$107,300 ongoing and \$14,400 one-time from the Financial Institutions restricted account for a Director of Administrative Services position at the Department of Financial Institutions. This employee was intended to fulfill the financial, budgetary, and administrative functions previously performed by the Chief Examiner, allowing the Chief Examiner to focus on examination and examiner development responsibilities. The ongoing component of the appropriation was for salary, benefits, current expense, and data processing costs related to this new position; the one-time component was to construct a new office and to purchase office furniture and computer equipment. Unspent funds appropriated from the Financial Institutions restricted account lapse to that account at the end of each fiscal year.

### Implementation

The Commissioner determined that staffing would be more effectively organized by creating a new Finance Director position instead. He selected a current employee to fill the Finance Director role, promoted several individuals internally, and hired a new individual to fill the resulting vacant examiner position. On August 1, 2014, the Finance Director position was filled. A new office was constructed for the Finance Director and a desk, office chair, two side chairs, a filing cabinet, a bookcase, a computer, and an external monitor were purchased.

### Accuracy

The new examiner salary, benefits, travel, data processing, and current expense plus the incremental increases to the existing, promoted employees -- including the Finance Director -- totaled \$102,900 in FY 2015. However, these increases were only effective for 11 months. Annualized, costs in FY 2016 and ongoing will be approximately \$111,500 per year, which is four percent above the appropriated amount. One-time expenses exceeded the appropriation by 16 percent. These costs were absorbed within the department's existing budget.

### Performance

The new Finance Director position has allowed that individual and other senior management to focus on their primary responsibilities.

# FISCAL NOTE AND BUDGET ITEM FOLLOW-UP REPORT

## 2014 G.S. Two examiners

Committee: BEDL

Analyst: Clare Lence

| Cost Estimate | Revenue Estimate | Original Approp. | Changes | Subtotal  | Experienced | Difference |
|---------------|------------------|------------------|---------|-----------|-------------|------------|
| \$231,200     | \$0              | \$241,500        | \$0     | \$241,500 | \$127,996   | \$113,504  |

### Explanation

The Legislature appropriated \$223,500 ongoing and \$18,000 one-time from the Financial Institutions restricted account for two new examiners at the Department of Financial Institutions. The ongoing component of the appropriation was for salary, benefits, in-state examination-related travel, out-of-state examination-related travel, out-of-state training, current expense, and data processing; the one-time component was to purchase office furniture and computer equipment. Unspent funds appropriated from the Financial Institutions restricted account lapse to that account at the end of each fiscal year.

### Implementation

The department began the hiring process on July 18, 2014. On October 20, 2014, two entry-level examiners were hired. Desk chairs, laptop computers, computer accessories, printers, and basic office supplies were purchased.

### Accuracy

One-third of the fiscal year passed before the new positions were filled, resulting in actual costs of \$121,038 in ongoing expenses for FY 2015. Costs for a full fiscal year would have been approximately \$175,000. In the next year or two, after these examiners complete their probationary period and are promoted to the Examiner II position, costs should align with the appropriation of \$223,500. The cost estimate and appropriation accounted for these near-term salary increases. More one-time funds were appropriated than the cost estimate: actual costs were \$6,958 -- within \$800 of the cost estimate but \$11,000 less than the appropriated amount. The \$800 difference is due to lower costs for the same model computers and printers as were purchased three years prior. The appropriation was left unadjusted because the difference lapses back to the Financial Institutions restricted account.

### Performance

Examiner workload is best measured by total assets under supervision by each examiner. During the recession, the total assets supervised by the department declined, as did the number of examiners. By FY 2014, total assets had returned to FY 2008 levels, increasing the average assets under supervision to \$6.6 billion per examiner. With the addition of the two new examiners, per-examiner assets have decreased to \$5.9 billion.

## Appendix A - Guidelines for Scoring Follow-ups

### Fiscal Note Building Block Follow-Up Report

The Analyst follows up on bills and building blocks from two sessions ago.

- **Item Explanation**  
What the appropriation is supposed to do. For bills the explanation is the fiscal note
- **Implementation**  
Is the item being implemented in a timely manner?
- **Accuracy**  
Was the fiscal note accurate? Both the Analyst and the agency are rated.
- **Performance Measures**  
Shown and evaluated when appropriate.
- **Follow the Money**  
The report traces funding from the original request to the remaining balance.

### Red - Yellow - Green Guidelines

We point out problems, potential trouble, and things going as expected with traffic light colors.

#### *One Size Does Not Fit All*

Early on, we found that what was reasonable for revenue estimates is unreasonable for ordinary bills and building blocks. Our guidelines are less stringent when an agency is asked to do something new and different than their usual fare.

#### *\$10,000 Rule*

The temptation to manage a fiscal note is so great that we give an automatic Yellow to any bill with a fiscal note near \$10,000.

#### *The Director's Exception*

The Director may draw your attention to any bill or building block with a yellow if the item needs your attention.

### Current Rules

#### *Accuracy of Familiar Programs / Processes*

-  Green - Within 5% of estimate or variances less than \$10,000.
-  Yellow - Greater than 5% but less than or equal to 10% of estimate and more than \$10,000.
-  Red - Greater than 10% of estimate and more than \$10,000.

#### *Accuracy of Unfamiliar Programs / Processes*

-  Green - Within 10% of estimate or variances less than \$10,000.
-  Yellow - Greater than 10% but less than or equal to 20% of estimate and more than \$10,000.
-  Red - Greater than 20% of estimate and more than \$10,000.

#### *Accuracy of Revenue Bills*

-  Green - Within the estimates margin of error.
-  Yellow - Greater than margin of error but less than two times margin of error.
-  Red - Greater than two times margin of error.

#### *Implementation*

-  Green - Implemented within the first month of the bill's effective date. The definition of implemented will vary according to the difficulty of the bill's task. Tasks that are too large to be implemented in the first month can be considered implemented if the agency has a reasonable plan and they are on schedule.
-  Yellow - Implemented after the first month but before the fourth month of the bill's effective date.
-  Red - Implemented after three months of the bill's effective date.

#### *Performance Measures*

The Analyst will decide if performance measures are appropriate and will use the "Implementation" guidelines. The Analyst will evaluate the agency's performance measures and recommend alternate measures when necessary.