

1993-94 SESSION
COMMITTEE HEARING
RECORDS

Committee Name:

Joint Committee on
Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

➤ Appointments ... Appt

➤ **

➤ Clearinghouse Rules ... CRule

➤ **

➤ Committee Hearings ... CH

➤ **

➤ Committee Reports ... CR

➤ **

➤ Executive Sessions ... ES

➤ **

➤ Hearing Records ... HR

➤ **

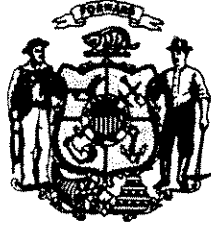
➤ Miscellaneous ... Misc

➤ 93hrJC-Fi_Misc_pt52

➤ Record of Comm. Proceedings ... RCP

➤ **

State of Wisconsin



JOINT COMMITTEE ON FINANCE

June 3, 1993

TO: Mr. James R. Klauser, Secretary
Department of Administration

FROM: Senator Joe Leraan
Representative Barbara J. Linton
Co-Chair, Joint Committee on Finance

We have reviewed the request from the Department of Administration dated May 13, 1993, under ss. 16.505(2) and 16.515 pertaining to the request for the Office of the Commissioner of Savings and Loan.

Please be advised that we have found no objections to it and accordingly, it is approved effective June 4, 1993.

JL:BJL:ns

cc: Roger Grossman

CORRESPONDENCE/MEMORANDUMSTATE OF WISCONSIN
Department of Administration**Date:** 11 May, 1993**To:** James R. Klauser, Secretary
Department of Administration**From:** Steven C. Little, Executive Policy Analyst
Division of Executive Budget & Planning**Subject:** s. 16.515 Request for the Office of the Commissioner of Savings & Loan**REQUEST:**

The Office of the Commissioner of Savings & Loan requests an increase of \$41,000 PRO expenditure authority in appropriation s.20.175 (1)(g) (General Program Operations). The increased expenditure authority is requested for two purposes:

- To provide a \$26,000 PRO supplement to S&L's supplies and services line. The additional expenditure authority is requested to fund increased training and travel costs associated with enforcing 1991 Wisconsin Act 221.
- To purchase an interest rate risk computer software model and equipment. S&L estimates that a one-time supplement of \$15,000 PRO is needed to purchase the software and equipment.

BACKGROUND:

The Office of the Commissioner of Savings & Loan (S&L) supervises state chartered savings and loans, loan associations, and savings banks. S&L's objective is to prevent loss to depositors due to poor association operations, to assist in assuring the flow of loanable funds, to protect and promote consumer interests, and to encourage and facilitate expanded and improved financial services to the public. S&L regulates state chartered savings and loan associations and savings banks through examination and supervision on a continuing basis.

ANALYSIS:**ADDITIONAL TRAVEL & TRAINING COSTS**

With enactment of the Financial Institution Reform Recovery and Enforcement Act of 1989 (FIRREA), S&L saw an increase in the number of state chartered savings and loans converting from state to federal charters to avoid the cost of regulation by the state since the institutions would also be regulated at the federal level by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). Because of this conversion, S&L reduced the size of their examination staff to reflect the decrease in the number of savings and loan institutions regulated by the state.

The enactment of 1991 Wisconsin Act 221 created a new category of financial institutions called *savings banks*. Institutions converting to savings banks are exempt from

regulatory supervision by the OTS as well as the costs associated with regulation. Wisconsin Savings Banks are still regulated by the FDIC and the Office of the Commissioner of Savings & Loan. To date, S&L has approved thirteen institutions to operate as Wisconsin Savings Banks.

Due to the number of savings banks conversions, S&L has increased the size of their examination staff by filling two vacant examiner positions, (bringing the total number of examiners to six) and has requested an additional examiner position in the 1993-95 biennial budget. S&L is now requesting a \$26,000 PRO supplement to their supplies and services line to reflect increases in examiner travel costs as well as additional costs associated with savings bank training courses sponsored by OTS.

Of the \$26,000 PRO requested in supplies and services expenditure authority, \$18,500 PRO is associated with additional mileage reimbursements, lodging and meals incurred by S&L's examiner staff while performing examinations on the thirteen institutions which have been approved as Wisconsin Savings Banks in FY93. The remaining \$7,500 PRO is needed to fund additional transportation, meals and lodging costs incurred by S&L for sending examiners to OTS training seminars. Before August 1992, OTS funded the entire cost of the examiner's training. Now OTS only pays for the cost of the course, requiring the states to pick up any additional costs. S&L indicates that whenever possible they schedule training for their examiners in Chicago, Illinois, however in the past year examiners have had to travel as far as Oklahoma and Texas for training courses which can last as long as a week.

S&L indicates that \$8,600 or approximately 6% of their \$153,000 PRO annual supplies and services budget can be considered discretionary spending. In anticipation of submitting this s.16.515 request, S&L has attempted to reduce costs by decreasing the length of time records are retained at the Record Center. This reduction will result in a savings of approximately \$300 in the final quarter of FY93.

After studying the projected supplies and services expenditures and expenditures on other lines such as permanent and LTE salary, the requested amount of \$26,000 PRO should be reduced to \$24,900 PRO. This reduced amount reflects:

- An allotment transfer of \$260 in S&L's operating budget. S&L is directed to transfer \$180 PRO in permanent property and \$80 PRO from the LTE line to their supplies and services line.
- A reduction in S&L's supplies and services request of \$850 PRO. This reduction reflects a reduction of \$250 in S&L's postage budget, a \$250 reduction in their supplies budget, and a \$350 reduction in their office equipment budget for the remainder of FY93.

Because this request was submitted well into the fourth quarter of FY93, additional expenditures cannot be cut. In the future S&L should better plan their operating budget so that positions can be held vacant or that non-essential spending can be reduced earlier in the year to address possibility of overspending in the agency's operating budget.

INTEREST RATE RISK COMPUTER MODELING

S&L requests \$15,000 PRO in one-time expenditure authority to purchase an interest rate risk computer simulation model. This model would be used to study how changes in interest rates effect the assets and liabilities of the institutions which convert to Wisconsin Savings Banks. OTS studies these interest rate changes for institutions which they regulate, however, because the newly chartered savings banks are not regulated by OTS, S&L will have to purchase the software.

S&L did not request funding for the interest rate risk computer modeling in the 1993-95 budget request because they were not aware of the need for the expenditure until after the request was submitted to the Department of Administration in October 1992.

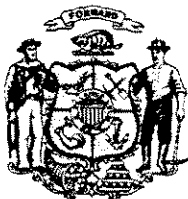
Because the purchase of the computer software does not constitute an emergency as defined under s.16.515, and because S&L indicated that the purchase of the computer modeling is not essential to the operation of the agency in this fiscal year, the request for \$15,000 PRO should be denied.

RECOMMENDATION:

Recommend \$24,900 PRO in additional supplies and services expenditure authority in appropriation s.20.175 (1)(g) (General Program Operations). Direct S&L to prepare an allotment transfer form transferring \$850 from their LTE and permanent property lines to the supplies and services line in that same appropriation. This change will transfer excess expenditure authority within the agency's operating budget to their supplies and services line.

Deny requested funding of \$15,000 PRO for the computer modeling software.

Tommy G. Thompson
Governor



Harold N. Lee, Jr.
Commissioner

J. David Christenson
Deputy Commissioner

State of Wisconsin

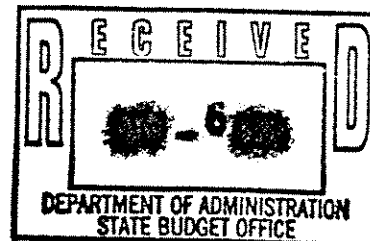
Office of the Commissioner of Savings and Loan

4785 Hayes Road, Suite 202 • Madison, Wisconsin 53704-7365 • (608) 242-2180 • FAX# (608) 242-2187

May 3, 1993

TO: James R. Klauser, Secretary
Department of Administration

FROM: Harold N. Lee, Jr., Commissioner
Office of the Commissioner of Savings & Loan



SUBJECT: s16.515 Request

Summary of the Request:

This is a request under s.16.515, Wis. Stats., for a supplement of \$41,000.00 to the Office of Commissioner of Savings & Loan's s.20.175(1)(g) appropriation. The need for this request results from the 1991 Wisconsin Act 221 which created a new financial entity called a Wisconsin Savings Bank. Since the bill became law, nineteen institutions have applied to become Wisconsin savings banks. We have hired two additional examiners to keep pace with these applications. These examiners are on the road most of the year. The request is for the training and travel expenses for these examiners and to purchase an interest rate risk computer simulation model.

Background

In August 1989, the federal government enacted the Financial Institution Reform, Recovery and Enforcement Act (FIRREA). This law resulted in many advantages for savings and loans to operate as federally chartered institutions. Thus, a number of state chartered savings and loans converted to federal charters. Due to these conversions and the uncertain future of state chartered thrifts, our agency downsized our examination staff.

On April 22, 1992 Governor Tommy Thompson signed into law the 1991 Wisconsin Act 221. This law enacted ch. 214, Stats., which established a new financial institution called a Wisconsin Savings Bank. This bill established advantages for state chartered thrifts. Thereby, leveling the playing field for state and federal thrifts.

Since this bill took effect on May 7, 1992, nineteen institutions (including two federal) have submitted applications to convert to savings banks. As of April 30, 1993, thirteen institutions have been approved as Wisconsin Savings Banks. With this new Wisconsin Savings Bank entity, our agency hired two additional examiners to examine state chartered thrifts. Thus, ensuring that the Wisconsin thrift industry maintains their position as one of the strongest in the country.

Justification for Request

Part I

Upon hiring 2 new examiners at the start of Fiscal Year 1993, our travel expenses for examiners have increased. Since our examiners spend a majority of their time on the road our supplies and services budget has increased. Expenses in this area include; mileage reimbursement, meals, hotels and related expenses.

The reasons for the greater spending authority on the training and travel are as follows: the savings and loan industry is highly technical and sophisticated. Therefore, it is very important to get our new examiners into the proper schools and classes, as quickly as possible, so they can become competent examiners.

The Office of Thrift Supervision (OTS), a federal regulatory agency, used to pick up almost the entire cost of the schools and classes our examiners attended. This included the cost of the school, transportation, meals and hotels. As of August 1992, they only pay for the cost of the school.

There is a good chance that some if not all of these schools will not be available to us after December 1993. Therefore, it is vital to get our examiners into these schools as early as possible.

The Office of the Commissioner of Savings and Loan views this as an emergency situation. It is imperative to keep our examiners out in the field conducting examinations of state chartered thrifts. Our agency has cut out all non-essential spending. Because of the analysis above we believe \$26,000 of additional spending authority should be authorized.

Part II

Financial institutions have to assess how changes in interest rates effect their assets and liabilities. This is called interest rate risk. To compute interest rate risk effectively requires a computer simulation model. In the past years, OTS has developed a model to run interest rate risk simulations. Now, when a financial institution converts to a Wisconsin Savings Bank they eliminate the OTS as a regulator. Thus, it is vital for our agency to purchase a model and equipment to run interest rate risk simulations.

Interest rate risk models cost between \$10,000 and \$100,000. Our request for \$15,000 would cover a good model and equipment. The majority of the \$15,000 is a one-time purchase. The annual support of the model will run about \$1,500/year. The vendor of this model is also based in Madison, WI. We believe the additional spending authority of \$15,000 be authorized to ensure that our agency has the tools to keep this Wisconsin Savings Banks safe and sound. This model will help us analyze this very complex and technical area of risk. This is a major area of concern since interest rate risk is considered one of the major reasons for failures of thrifts. Effective monitoring and implementation of interest rate risk simulation can assist us in keeping savings banks safe, sound and profitable.

Analysis of Existing Budget

We have projected that our agency will need \$41,048 on the supplies and services line to cover expenses through June 30, 1993 (see attachment I). This attachment reveals that our agency has eliminated all non-essential spending. With our remaining expenditure authority of \$15,008 this would leave us short by approximately \$26,000.

Attachment II shows the breakdown of our agency's typical monthly travel expenses. We expect the last quarter of the fiscal year to have greater travel expenses due to the scheduling of six exams outside of our examiners base area. These exams are set up approximately six months in advance and are coordinated with the federal regulatory agencies that work with us on these exams.

We will be using all of our other authorized expenditure authority (Permanent Salaries, LTE Salaries and Permanent Property). Thus, we are unable to transfer any other expenditure authority to the supplies and services line.

We have calculated that due to the increase in our examination staff that the additional \$26,000 request is attributable to two components. First, the additional travel expenses amount to approximately \$18,500. Secondly, the additional training costs amount to approximately \$7,500.

If we do not receive the additional expenditure authority we will have to bring all our examination team back to Milwaukee where we will not be able to utilize them in a productive manner. We will lose a lot of credibility with other federal regulatory agencies and the industry we regulate.

Summary

Once you have reviewed our request, we believe you will agree that it is imperative that our agency receives the additional \$41,000. We appreciate you reviewing our request and look forward to your reply.

ATTACHMENT 1

OFFICE OF COMMISSIONER OF SAVINGS AND LOAN

April 93, 19

SUPPLIES AND SERVICES (2000 and 3000)

PROJECTED THROUGH
June 30, 1993
~~CURRENT~~
~~MONTH~~

	<u>Year to Date Total</u>	<u>Balance</u>
Allotment (\$ <u>153,000</u>)		\$ <u>153,000.00</u>
<u>EXPENDITURES</u>		
Travel Expense ¹	\$ <u>17,350</u>	\$ <u>33,703.87</u>
Auto Leasing	<u>3,200</u>	<u>8,374.69</u>
Training	<u>500</u>	<u>22,843.57</u>
Telephone: SERVICE	<u>2,000</u>	<u>5,921.47</u>
Long Dist.	<u>150</u>	<u>415.48</u>
STS	<u>375</u>	<u>1,039.71</u>
Rent	<u>6,573</u>	<u>35,143.85</u>
Postage ²	<u>1,000</u>	<u>3,011.34</u>
Printing ³	<u>1,500</u>	<u>8,652.89</u>
Supplies	<u>500</u>	<u>4,676.64</u>
Office Equipment	<u>350</u>	<u>3,089.60</u>
Data Processing	<u>1,000</u>	<u>3,639.76</u>
Memberships/ ⁴ Subscriptions	<u>6,500</u>	<u>4,297.67</u>
INSURANCE		<u>1,273.00</u>
Records Center	<u>400</u>	<u>1,908.17</u>
TOTAL	\$ <u>41,048</u>	\$ <u>137,991.71</u>

179,039.71

Unencumbered Balance

\$ (26,039.71)

1 includes expenses for 6 examinations outside of base area: Tomahawk, Superior, Nekoosa, Marshfield, Kaukauna and Wausau.

2 postage expense includes mailing cost for recently printer state statutes

3 printing expense is for savings bank rules and statutes

4 membership for the American Council of State Savings Supervisors. Commissioner is chairman of this organization

ATTACHMENT II

March _____, 1993

EXAMINATION EXPENSES

	<u>MONTH</u>	<u>YEAR TO DATE</u>
TRAVEL EXPENSES	<u>4496.05</u>	<u>28486.85</u>
LODGING EXPENSES	<u>2529.29</u>	<u>12337.97</u>
MEALS EXPENSES	<u>1294.95</u>	<u>8462.61</u>
FLEET MILES	<u>4029</u>	<u>42994</u>
NON FLEET MILES	<u>2080</u>	<u>15380</u>
FLEET EXPENSES	<u>767.73</u>	<u>7056.13</u>
TOTAL TRAVEL EXPENSES	<u>5263.78</u>	<u>35542.98</u>