Legislative Fiscal Bureau

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Department Operations (Financial Institutions)

[LFB 2023-25 Budget Summary: Page 182, #2]

CURRENT LAW

With certain exceptions, fees and assessments imposed on regulated entities and individuals by the Department of Financial Institutions (DFI) are deposited in DFI's general program operations appropriation. Base funding of $17,286,700 PR with 138.54 PR positions is provided for DFI's general program operations. Any balance in this appropriation at the close of a fiscal year transfers to the general fund.

DISCUSSION POINTS

1. The Department is "dedicated to protecting the safety and soundness of Wisconsin's financial institutions, safeguarding the investing public, facilitating commerce, and increasing financial capability throughout the state." Over the previous three biennia, reductions were made to DFI's budget. The table below provides information on the cumulative effect of administrative lapses and permanent reductions from 2017-18 to 2022-23 on DFI's budget.

TABLE 1

Administrative Lapses and Permanent Reductions 2017 to 2023

Fiscal Year	Type	Fiscal Year Reduction	Previous Permanent Reduction	Total Annual Reduction
2017-18	permanent 5% reduction	$940,400		$940,400
2018-19	permanent 5% reduction	940,400		940,400
2019-20	administrative 5% budget lapse	898,600	$940,400	1,839,000
2020-21	administrative 8% budget lapse	1,450,000	940,400	2,390,400
2021-22	permanent reduction	1,305,000	940,400	2,245,400
2022-23	permanent reduction	1,305,000	940,400	2,245,400
	Total Reduction	$6,839,400	$3,761,600	$10,601,000

2. These reductions plus rising costs led to financial challenges in the 2021-23 biennium for DFI as travel and training as well as IT needs expanded. Cost increases were due to inflation and increasing business travel, training, and conference costs that were artificially suppressed by the COVID-19 pandemic.

3. The Department attempted to address these challenges by: (a) using internal resources, normally used for maintaining IT operations, rather than contracting for IT solutions for two budget-funded projects; (b) holding vacancies; (c) utilizing a gifts, grants, and settlements appropriation to augment expenditures, an appropriation with resources fully expended by the end of 2022-23; and (d) reductions to supplies and services.

4. Of DFI's base funding for the 2023-25 biennium, $3,122,100 PR is allocated to supplies and services, with an additional $3,200 allocated to limited-term employee salaries and fringe benefits. In the 2017-19 biennium, DFI had a base supplies and services budget of $4,512,400 (a difference of -$1,390,300 PR annually from the 2023-25 base). To partially offset these reductions from 2019-20 to 2021-22, DFI received a total of $187,500 in federal COVID relief funding.

5. The Administration has proposed an increase in supplies and services expenditure authority of $3,393,100 PR annually, as identified below.

	Funding
Contractors	$2,604,500
Travel and Training	620,000
LTE Funding	108,900
Accreditation	59,700
Total	$3,393,100

6. Since the pandemic, DFI's software costs, to perform regulatory obligations, have increased to cover the licensing fees for approximately 30 different software licenses. The amount spent on software is 11.1% of the supply and services allotment.

7. Two 2021-23 budget-funded projects (Financial Integrity Information Technology Modernization and Notary Information Technology Modernization) used internal IT resources, rather than contracting for IT solutions, to manage a permanent budget cut to its general operations appropriation. These internal IT resources, normally used for maintaining IT's legacy systems throughout the biennium, subsequently delayed normal maintenance projects for the agency's legacy systems by completing these projects instead. This has resulted in a backlog of normal maintenance projects and other improvements that DFI does not have the staff resources or funding to address.

8. Therefore, the bill would provide total contractor funding of $3,144,500 to help DFI meet its IT maintenance needs. The Department would use $2,193,400 contractor funding to restore funding for a team to support daily operations consisting of: (a) one project manager at $80 an hour; (b) three server administrators at $65 and $62; and (c) a database administrator, as well as two solution delivery teams consisting of: (a) one project manager at $80 an hour; (b) five developers at $90 or $80; (c) a business analyst at $60; and (d) two quality assurance personnel at $50 to manage larger maintenance projects for the agency's nearly 100 legacy systems. Plus a 10% inflation factor to account for increasing costs.

9. An additional $1,029,600 would be used to contract for a team consisting of: (a) an architect at $115 per hour; (b) one project manager at $80; (c) two developers at $80; (d) a quality assurance personnel; and (e) a system administrator at $62 to address bug fixes and smaller enhancement efforts plus a 10% inflation factor to account for increasing costs.

10. The Department indicates that since it has approximately 100 diverse legacy systems to maintain, "contractors offer better flexibility to obtain the skill sets necessary to manage this technical debt. Contractor candidate pools are also traditionally deeper than state employee candidate pools. This helps to minimize time lost time in failed recruitments. Until the DFI is able to reach a state where maintenance is more predictable and manageable, the DFI's position is that contractors are more desirable an option to fill its immediate needs."

11. Base funding for IT contractors is $540,000 and projected costs are estimated at $3,223,000 in 2023-24 leaving a difference of $2,683,000. The bill would provide $2,604,500, as a result, DFI would need to reallocate $78,500 to fund the estimated IT contractor costs.

12. Similarly, the industries that DFI regulates require training events throughout the country for new staff and professional development. The cost of travel has been subject to inflation as professionals travel again for training, since the pandemic.

13. Out of its 141.54 positions (all funds), DFI has 43 field Bank and Credit Union examiners (examiners) who travel to examine the financial institutions. During the pandemic, DFI implemented a hybrid approach of conducting exams remotely. Since then, institutions have indicated a preference for DFI examiners to travel to the institutions for security reasons. Additionally, DFI has 25 examiners who need to travel to examine Securities and Licensed Financial Services.

14. The pre-pandemic average training and travel costs were $820,000. Using a 2% inflation each year for five years, results in training and travel costs of $900,000 ($300,000 for training and $600,000 for travel). While pre-pandemic costs were $820,000, budgeted funding for training and travel has been $280,000, leaving a difference of $620,000 to reallocate.

15. The Department receives accreditation from CSBS (Conference of State Bank Supervisors) and NASCUS (National Association of State Credit Union Supervisors). Accreditation memberships are based on assets of the financial institutions being examined. In the last five years, the CSBS and the NASCUS accreditation fees have increased 20.9% and 115.9% respectively. Base funding for accreditation is $104,000, and projected accreditation costs are $163,700 in 2022-23 leaving a difference of $59,700.

16. Given the cumulative effect of prior budget reductions, the Committee could provide an increase to DFI's program operations. [Alternative 1] This alternative would provide $3,393,100 PR annually for the Department's central duties.

17. Given DFI's responsibilities related to monitoring and regulation of state financial institutions and securities, providing some increase in agency operational funding could be beneficial to the agency. However, the Committee could provide such an increase but at a level of 75% or 50% of DFI's request. [Alternative 2a and b] Under either of these alternatives, DFI would be required to prioritize use of the increased funding.

18. Alternatively, the Committee could restore DFI's supplies and services funding to 2019 levels by providing $1,390,300 PR annually. [Alternative 3]

19. If no action is taken by the Committee, increased expenditures from DFI's general program operations appropriation would not occur. As a result, no reduction to revenue to the general fund would be realized. [Alternative 4]

ALTERNATIVES

1. Provide $3,393,100 PR annually for the Department's central duties including: (a) the maintenance and upgrade of critical information technology infrastructure, financial examiner travel and training costs, and accreditation costs ($3,284,200 PR); and (b) limited-term-employee salary and fringe costs ($108,900 PR). Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 1	Change to Base
PR	$6,786,200
GPR-REV	- $6,786,200

2. Choose one of the following, provide up to: (a) 75% or (b) 50% of the amount specified in the bill annually. Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 2a	Change to Base
PR	$5,089,600
GPR-REV	- $5,089,600

ALT 2b	Change to Base
PR	$3,393,100
GPR-REV	- $3,393,100

3. Provide $1,390,300 PR annually for the Department's central duties. Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 2c	Change to Base
PR	$2,780,600
GPR-REV	- $2,780,600

4. Take no action.

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