

Individual State Agency Fiscal Note

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|---------------------------------|---|---|
| Bill Number: 6310 P S SB | Title: Washington investment trust | Agency: 102-Dept of Financial Institutions |
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

| ACCOUNT | FY 2012 | FY 2013 | 2011-13 | 2013-15 | 2015-17 |
|---|---------|---------|---------|---------|---------|
| Financial Services Regulation Account-Non-Appropriated 300-6 | 75,692 | 416,640 | 492,332 | 833,280 | 710,030 |
| Total \$ | 75,692 | 416,640 | 492,332 | 833,280 | 710,030 |

Estimated Expenditures from:

| | FY 2012 | FY 2013 | 2011-13 | 2013-15 | 2015-17 |
|---|---------|---------|---------|---------|---------|
| FTE Staff Years | 1.3 | 3.5 | 2.4 | 3.5 | 2.8 |
| Account | | | | | |
| Financial Services Regulation Account-Non-Appropriated 300-6 | 157,824 | 402,757 | 560,581 | 805,514 | 693,660 |
| Total \$ | 157,824 | 402,757 | 560,581 | 805,514 | 693,660 |

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

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|-------------------------------------|-----------------------|------------------|
| Legislative Contact: Edward Redmond | Phone: 360-786-7471 | Date: 01/21/2012 |
| Agency Preparation: Bonnie Anderson | Phone: (360) 902-8792 | Date: 01/26/2012 |
| Agency Approval: Gloria Papiez | Phone: (360) 902-8820 | Date: 01/26/2012 |
| OFM Review: Cheri Keller | Phone: 360-902-0563 | Date: 01/27/2012 |

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 5 TRANSITION BOARD states “The department must provide technical assistance to the trust transition board.”

Section 4 COMMISSION (3) states “The commission shall commence trust operations by July 1, 2013.”

Section 13 (HB) FINANCIAL REGULATION (2) states “The director may examine the trust in the same manner as a state-chartered financial institution under RCW 30.04.060. The director shall take into consideration the unique circumstances of a publicly owned financial institution when examining the trust. The trust shall pay the director for the reasonable costs of examinations.”

Section 13 (SB) FINANCIAL REGULATION (1)(a) states “The trust must comply with regulatory provisions of RCW 30.04.050. The director shall independently examine the trust, including its safety and soundness and loaning standards, in the same manner as a state-chartered bank under RCW 30.04.060. The trust must pay the director for the reasonable costs of examinations.”

The Department used three different scenarios to develop its fiscal note based on differing asset sizes during the trust’s first ten years of operation. For the purposes of the fiscal note the Department used the middle scenario.

Scenario 1 was based on a modest sized institution starting at \$500 million to \$1 billion and growing to \$3-5 billion within the first ten years.

Scenario 2 was based on a medium sized institution starting at \$1-3 billion and growing to \$5-7 billion within the first ten years.

Scenario 3 was based on a large sized institution starting at \$5-7 billion and growing to \$10-15 billion within the first ten years.

The Department estimates that senior management of the DFI and its Division of Banks will provide such technical assistance as requested by the Trust Transition Board. The fiscal note includes time spent by the DFI Director, DFI Legal Counsel, DFI Bank Director, DFI Bank Program Managers, and DFI Bank Case Manager providing such technical assistance prior to the Trust’s opening.

The Department anticipates a pre-opening examination will be conducted. The purpose of the examination is to ensure that policies, processes, systems, and procedures are sufficient for the trust to conduct a safe and sound operation upon its opening, and to provide management with guidance for future regulatory requirements and expectations of the trust. In all three scenarios the estimates included Visitations during the first three years, and annual full scope Safety and Soundness and Information Technology examinations.

The Department anticipates it will conduct Safety and Soundness examinations of the trust in a manner that is consistent with its examination of state-chartered financial institutions under RCW 30.04.060. This is anticipated to include a limited scope examination (Visitation) after the trust’s first six months of operation. The purpose of the Visitation is to ensure that operations have commenced in a satisfactory manner, to provide guidance regarding the trust’s operations, and to plan for the trust’s first safety and soundness examination.

A full scope safety and soundness examination will be conducted within the first 12 months of the trust’s opening. The

examination will be similar in scope to that of a state chartered bank examination, with an emphasis placed on capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risks (CAMELS). In addition, an information technology examination will be conducted.

In the second year an 18-month Visitation will be conducted. The scope will be to follow up on any material exceptions noted at the safety and soundness examination, provide additional guidance regarding the trust's operations, and to plan for the following safety and soundness examination. The trust's second full scope safety and soundness examination will be conducted within the first 24 months of operation. The focus will again be on the CAMELS components, and will include an information technology examination.

In the third year a 30-month Visitation will be conducted. The scope will again be to followed up on any material exceptions noted at the second safety and soundness examination, provide additional guidance, and plan for the following safety and soundness examination. The trust's third full scope safety and soundness examination will be conducted within the first 36 months of operation. The focus will again be on the CAMELS components, and will include an information technology examination.

Thereafter, full scope safety and soundness examinations and IT examinations will be conducted on an annual basis or more frequently if material issues need to be addressed. Examination hours are expected to increase over time as the trust grows and additional loans and investments are made.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Section 13 FINANCIAL REGULATION (2) states "The director may examine the trust in the same manner as a state-chartered financial institution under RCW 30.04.060. The director shall take into consideration the unique circumstances of a publicly owned financial institution when examining the trust. The trust shall pay the director for the reasonable costs of examinations."

The department has two fee structures in place for its state-chartered financial institutions. A rate of \$80.60 per hour plus a semi-annual asset assessment is charged for depository institutions with federal deposit insurance, and \$111.64 per hour for trust companies, trust departments, and specialty information technology examinations. Since the investment trust does not have federally insured deposits and the proposed legislation does not allow for fees or assessments levied for the Trust, the department used the higher hourly examination rate in its cash receipts calculations.

The department charges for examinations based on the number of hours used in conducting its examinations. The estimated hours in the fiscal note are based on estimated examination times spent on multi-billion dollar state chartered financial institutions.

The first fiscal year prior to the Trust's opening the department estimates it will conduct a pre-opening examination. The department used the following estimated hours for the pre-opening examination:

Pre-opening examination – 680 hours

The department estimates the following Visitation hours will be used in each of the first three years:

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(3) Visitations – 960 hours

The department built into the fiscal note anticipated growth in the Trust’s total assets and related growth in the examination hours needed to examine the institution for safety and soundness purposes. The following shows Scenario 2’s estimated safety and soundness hours.

Safety and Soundness Examination – 2400 to 3600 hours.

FY 2-4 2400 hours

FY 5-6 2800 hours

FY 7-8 3200 hours

FY 9-10 3600 hours

The department estimates the following annual Information Technology hours will be used:

Information Technology Examination – 360 hours

Estimated travel time is deducted from the above hours as the Division does not charge for time spent in travel status. Travel time was estimated at 2 hours per examiner for every week spent in travel status. In addition the estimate included billing for administrative time spent by the Division Director, Program Managers, and Case Managers in attending examination and visitation exit meetings, reviewing examination reports upon their completion, reviewing examination responses provided by Trust management, and following up on examination related questions by the Trust’s management.

The following shows the anticipated billable examination hours by fiscal year and the corresponding cash receipts.

Scenario 2

FY 12 – 678 hours x \$111.64 = \$75,692

FY 13-15 – 3,732 hours x \$111.64 = \$416,640

FY 16-17 – 3,180 hours x \$111.64 = \$355,015

FY 18-19 – 3,562 hours x \$111.64 = \$397,662

FY 20-21 – 3,940 hours x \$111.64 = \$439,862

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Section 13 (HB) FINANCIAL REGULATION (2) states “The director may examine the trust in the same manner as a state-chartered financial institution under RCW 30.04.060. The director shall take into consideration the unique circumstances of a publicly owned financial institution when examining the trust. The trust shall pay the director for the reasonable costs of examinations.”

Section 13 (SB) FINANCIAL REGULATION (1)(a) states “The trust must comply with regulatory provisions of RCW 30.04.050. The director shall independently examine the trust, including its safety and soundness and loaning standards, in the same manner as a state-chartered bank under RCW 30.04.060. The trust must pay the director for the reasonable costs of examinations.”

Expenditure assumptions include salaries, benefits, goods and services, equipment, supplies, administrative overhead, travel and per diem expenses, and attorney general costs.

Salaries did not include the 3% temporary salary reduction effective July 1, 2011.

DFI Director, DFI Legal Counsel, Bank Division Director, Program Managers, and the Case Manager's salaries were calculated based on actual salaries.

Examiner salaries were calculated based on Financial Examiner 4, Range 68 Step E wages.

Clerical salaries were calculated based on Secretary Senior, Range 33 Step E wages.

Administrative overhead was calculated at 15% of the Division of Banks' direct costs.

Administrative salaries were calculated based on Fiscal Analyst 3, Range 50 Step E wages.

Benefits were calculated as 26.99% of wages.

Goods and Services were calculated as 11.73% of wages.

Travel and per diem expenses were based on OFM rates established for Thurston County as of October 1, 2011.

Miscellaneous Equipment, supplies, rents were calculated based on 4,500 per FTE.

Attorney General costs of \$17,400 per fiscal year were calculated using 10% of an FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2012 | FY 2013 | 2011-13 | 2013-15 | 2015-17 |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| FTE Staff Years | 1.3 | 3.5 | 2.4 | 3.5 | 2.8 |
| A-Salaries and Wages | 92,575 | 231,955 | 324,530 | 463,910 | 386,066 |
| B-Employee Benefits | 24,986 | 62,605 | 87,591 | 125,210 | 108,422 |
| C-Personal Service Contracts | | | | | |
| E-Goods and Services | 27,877 | 45,256 | 73,133 | 90,512 | 83,124 |
| G-Travel | 6,671 | 47,010 | 53,681 | 94,020 | 88,596 |
| J-Capital Outlays | 5,715 | 15,931 | 21,646 | 31,862 | 27,452 |
| M-Inter Agency/Fund Transfers | | | | | |
| N-Grants, Benefits & Client Services | | | | | |
| P-Debt Service | | | | | |
| S-Interagency Reimbursements | | | | | |
| T-Intra-Agency Reimbursements | | | | | |
| 9- | | | | | |
| Total: | \$157,824 | \$402,757 | \$560,581 | \$805,514 | \$693,660 |

III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

| Job Classification | Salary | FY 2012 | FY 2013 | 2011-13 | 2013-15 | 2015-17 |
|-------------------------------|----------------|------------|------------|------------|------------|------------|
| Director | 120,576 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Division Director | 105,240 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Financial Examiner 4 | 69,756 | 0.5 | 2.5 | 1.5 | 2.5 | 1.9 |
| Financial Examiner Supervisor | 87,109 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fiscal Analyst 3 | 44,712 | 0.3 | 0.7 | 0.5 | 0.7 | 0.6 |
| Legal Counsel | 102,840 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Program Manager | 95,496 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| Secretary Senior | 29,784 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total FTE's | 655,513 | 1.3 | 3.5 | 2.4 | 3.5 | 2.8 |

Part IV: Capital Budget Impact

NONE

N/A

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

N/A