



Colorado Legislative Council Staff Fiscal Note
**STATE and LOCAL
 FISCAL IMPACT**

Drafting Number: LLS 10-0124 **Date:** January 26, 2010
Prime Sponsor(s): Rep. Kagan; Sonnenberg **Bill Status:** House Business Affairs and Labor
 Sen. Williams; Harvey **Fiscal Analyst:** Bill Zepernick (303-866-4777)

TITLE: CONCERNING THE AUTHORITY FOR PUBLIC ENTITIES TO USE CREDIT UNIONS AS FINANCIAL INSTITUTIONS, AND, IN CONNECTION THEREWITH, ALLOWING CREDIT UNIONS TO MAKE LOANS TO PUBLIC ENTITIES AND ALLOWING FOR THE DEPOSIT OF PUBLIC MONEYS IN CREDIT UNIONS.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue		
Cash Funds		
Division of Financial Services Cash Fund*	\$140,000	\$190,000
State Expenditures		
Cash Funds		
Division of Financial Services Cash Fund	\$100,813	\$138,090
FTE Position Change	1.3 FTE	2.0 FTE
Effective Date: August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.		
Appropriation Summary for FY 2010-2011: See State Appropriations section.		
Local Government Impact: See Local Government Impact section.		

* *Fee revenue exceeds state expenditures in order to pay for centrally appropriated items. See the Expenditures Not Included section of this fiscal note.*

Summary of Legislation

The bill allows the investment or deposit of public funds in credit unions that are insured by the National Credit Union Administration, and allows credit unions to make loans to public entities. To receive state funds above the deposit insurance limits, a credit union must be designated by the Commissioner of Financial Services in the Department of Regulatory Agencies as an eligible public depository and follow the procedures and rules of the Public Deposit Protection Act.

State Revenue

The bill is expected to increase revenue to the Department of Regulatory Agencies in the Division of Financial Services Cash Fund by \$140,000 in FY 2010-11 and \$190,000 in FY 2011-12. This revenue is from fees paid by credit unions that are designated as eligible public depositories and are regulated under the Public Deposit Protection Act. Based on the current participation rate of

savings and loans associations, it is estimated that 70 of the 112 credit unions operating in the state would become public depositories during the first year and 95 would in the second year. To support the regulation of participating credit unions, a fee of \$2,000 is estimated to be required. This fee impact is summarized in Table 1. However, the exact fee will be set by the department based on the number of credit unions that ultimately seek to become a public depository.

Fee impact on individuals, families or business. Section 2-2-322, C.R.S., requires legislative service agency review of measures that create or increase any fee collected by a state agency. The table below identifies the fee impact of this bill.

Type of Fee	Fiscal Year	Proposed Fee	Number Affected	Total Fee Impact
Public Deposit Protection Act fee on participating Credit Unions	FY 2010-11	\$2,000	70	\$140,000
	FY 2011-12	\$2,000	95	\$190,000

Investment income. The bill is not expected to affect the amount of revenue earned from the investment or deposit of state funds. Depositing funds in credits unions is at the discretion of the State Treasurer. This analysis assumes that funds will only be deposited in credit unions if the rate of return and level of risk is comparable to those of other types of financial institutions.

State Expenditures

The bill increases costs to the Department of Regulatory Agencies by \$100,813 and 1.3 FTE in FY 2010-11 and \$138,090 and 2.0 FTE in FY 2011-12. This analysis assumes that the Public Deposit Protection Program will begin accepting credit unions beginning in October 2010, and that 70 credit unions will participate in FY 2010-11 and 95 will participate in FY 2011-12. Program costs are summarized in Table 2.

Cost Components	FY 2010-11	FY 2011-12
Personal Services	\$76,758	\$118,090
FTE	1.3	2.0
Operating Expenses and Capital Outlay	10,675	2,000
Travel Costs	13,380	18,000
TOTAL	\$100,813	\$138,090

Personal services. The department requires \$76,758 and 1.3 FTE in FY 2010-11 and \$118,090 and 2.0 FTE in FY 2011-12 for financial examiners who will conduct audits of credit unions that become eligible public depositories. Each participating credit union requires 40 hours of staff time during the first year, and 45 hours in the second year, to conduct quarterly audits and an annual onsite examination. Less staff time is required during the first year because only 3 quarterly audits are expected if the program begins operating in October 2010.

Operating expenses and capital outlay. The department is expected to have costs of \$10,675 in FY 2010-11 and \$2,000 in FY 2011-12 for operating expenses and capital outlay. These costs include recurring expenses for telephone, postage, and other operating expenses. Costs in FY 2010-11 are prorated to reflect the October start date of the program, and also includes one-time capital costs for furniture, computers, and software.

Travel costs. The department requires \$13,380 in FY 2010-11 and \$18,000 in FY 2011-12 for travel expenses under the bill. About one-fourth of credit unions are located outside of the Front Range metro area, and travel expenses for onsite examinations of these credit unions will be incurred. This analysis estimates that examiners must travel to 18 credit unions that are outside of the Front Range during the first year, and 25 in the second year. Costs in FY 2010-11 include \$8,880 for hotel, per diem, and other expenses, and \$4,500 for vehicle mileage costs. These costs increase in FY 2011-12 to reflect increased credit union participation.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 3.

Table 3. Expenditures Not Included Under HB10-1075*		
Cost Components	FY 2010-11	FY 2011-12
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$9,230	\$14,220
Supplemental Employee Retirement Payments	2,854	5,344
Leased Space	5,460	8,400
Indirect Costs	15,978	24,582
TOTAL	\$33,522	\$52,546

*More information is available at: <http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536133924>

Local Government Impact

The bill gives local governments more flexibility to deposit funds in credit unions or use credit unions as a source of debt financing. However, since local governments have discretion on depositing funds in or seeking loans from credit unions, it is assumed that they will only do so if the rate of return, level of risk, and loan costs are similar to options available at other types of financial institutions. Therefore, no significant local government impact is expected under the bill.

State Appropriations

The fiscal note indicates that the Department of Regulatory Agencies requires an appropriation of \$100,813 from the Division of Financial Services Cash Fund and 1.3 FTE in FY 2010-11.

Departments Contacted

Law
Revenue

Personnel
Treasury

Regulatory Agencies