



**CREDIT UNION COMMISSION**  
**Commission Policy Review Committee Meeting**  
*(Credit Union Department Building*  
*914 East Anderson Lane*  
*Austin, Texas*

**Thursday, November 3, 2022**  
**1:30 p.m.**

\* \* \* **AGENDA** \* \* \*

This meeting of the Texas Credit Union Commission's Policy Review Committee will be held at the Credit Union Department Building at 914 E. Anderson Ln., Austin, Texas 78752 and is open to the public. Only onsite testimony will be allowed; however, the meeting will be transmitted live through a link on the Department's webpage at [www.cud.texas.gov](http://www.cud.texas.gov) on the day of the meeting, November 3, 2022 at 1:30 p.m.

An electronic copy of the agenda is now available at [www.cud.texas.gov](http://www.cud.texas.gov) under Credit Union Commission, Commission Meetings, along with a copy of the meeting materials. A recording of the meeting will be available after November 18, 2022. To obtain a recording, please contact Isabel Velasquez at 512-837-9236.

*Public comment on any agenda item or issue under the jurisdiction of the Credit Union Commission Rules Committee is allowed. Unless authorized by a majority vote of the meeting quorum, the comments of any persons wishing to address the Committee will be limited to no more than ten (10) minutes.*

**The Committee may discuss and/or take action regarding any item on this agenda.**

| <b><u>TAB</u></b>   | <b><u>PAGE</u></b> |
|---|--------------------|
| <b>A.</b> Call to Order (1:30 p.m.) – Committee Chair David Bleazard                    | <b>4</b>           |
| 1. Ascertain Quorum   |                    |
| 2. Appoint Recording Secretary  |                    |
| 3. Invitation for Public Input  |                    |
| 4. Acknowledge Guests   |                    |
| <b>B.</b> Commission Policy Manual  |                    |
| 1. Proposed Changes to Reserve Policy, Section XX                                       | <b>6</b>           |
| 2. Review of Policy Manual and Proposed Changes and/or General Discussion of the Manual | <b>12</b>          |
| <b>C.</b> Future Committee Meeting Dates and Agenda Items                               | <b>15</b>          |
| Adjournment   |                    |

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**Executive Session:** The Committee may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

**Meeting Recess:** In the event the Commission does not finish deliberation of an item on the first day for which it was posted, the Commission might recess the meeting until the following day at the time and place announced at the time of recess.

**Meeting Accessibility:** Under the Americans with Disabilities Act, the Credit Union Commission will accommodate special needs. Those requesting auxiliary aids or services should notify Joel Arevalo, Texas Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752--(512) 837-9236, as far in advance of the meeting as possible.

A

# **CALL TO ORDER**

## ***TEXAS CREDIT UNION COMMISSION POLICY MANUAL REVIEW COMMITTEE***

### **Members**

- *David Bleazard, Chair*
- *Karyn Brownlee*
- *David Shurtz*
- *Jim Minge, Ex-officio*

### **Legal Counsel**

- *Nancy Elmilady*

### **Staff**

- *Michael S. Riepen*
- *Robert W. Etheridge*
- *Isabel Velasquez*

B

## **COMMISSION POLICY MANUAL**

### **B. 1. Discussion, Consideration, and Possible Vote to Take Action to Approve Proposed Changes to the Reserve Policy, Under Section XX of the Commission Policy Manual.**

**BACKGROUND:** The proposed changes to the Reserve Policy are a result of a recommended management action made by the Sunset Review Team in their final report issued in August 2020. The recommendation directs the commission to change its Reserve Fund Policy to base the balance of the fund on the Department's budget and expenditures, rather than a fixed amount that may not accurately reflect our long-term needs. The recommended changes to the policy will result in the Reserve Fund balance being evaluated and adjusted during each fiscal year's budgetary process based on the projected budget for the next fiscal year. The changes will also make sure adequate funds are set aside to for an adequate financial cushion, and for major projects, such as building improvements and information technology needs.

**RECOMMENDED ACTION:** The Department recommends that the Commission approve the suggested revisions to the Reserve Policy and any others it deems necessary.

**RECOMMENDED MOTION:** I move that the Commission approve and adopt the proposed changes to the Reserve Policy, under Section XX of the Commission Policy Manual.

## XX. RESERVE POLICY

This policy is adopted by the Commission to serve as a framework for the Commission to determine the purpose, amount, and restrictions on reserves of the Department.

A. Objective. The Commission recognizes that maintaining appropriate sufficient reserves will ensure adequate funding for the needs and obligations of the agency including:

A.

- Sustaining the agency through an unexpected financial crisis.
- Financing contingencies or emergencies as defined by the Commission.
- Purchasing equipment and repairing and maintaining facilities to assist staff in meeting the mission of the agency.
- Covering extraordinary liability claims and deductible levels specified in the agency's insurance policies.
- Funding required lump sum payments of accrued vacation and sick leave

Adequate reserves will minimize the impact of unexpectedthese events on future assessments and ensure that the resources used to generate today's programs are funded replaced by those credit unions that are receiving the benefits and services today of the Department.-

B. Reserves for the Department. The Department will maintain a Contingency Fund Reserve account (Reserve Account) to provide the fundingconsisting of potential expense items in multiplesix sub-categoriesaccounts, each of which has a specific purpose, calculated level of need, and restrictions on use. The sum of the aggregate funds in the Reserve Account six sub-accounts is limited will be to set at -25 percent of the Department's current fiscal year budget\$1,050,000, prior to the current year's Reserve Account allocation; unless a different level is determined by the Commission as to being be necessary to sustain the Department's operations. Each fiscal year, the Reserve Account will automatically be funded to the required level from the current fiscal year's budget, not to exceed a maximum annual funded amount of \$100,000; unless prior approval is obtained from the commission to exceed that amount. The sub-categoriesaccounts for the Reserve Account are:

### 1. Building & Equipment Account

#### 1. Purpose:

Purpose: To provide funds for fixed asset purchases and deferred capital/maintenance projects to repair or renovate the Credit Union



Department Building. Generally, the annual operating plan and budget will provide anticipated, upcoming funding needs for this category, based upon:

~~**Restriction of use:** The Commission may release funds from the Building and Equipment Account for each budget cycle that anticipates fixed asset purchases, or any time unanticipated major building repairs or maintenance expenses arise.~~

~~**Level:** The Building & Equipment Account will be equal to an amount deemed sufficient by the Commission to fund needs over the upcoming 5 years, which at a minimum balance shall be 2.5 percent of the Department operating budget or \$80,000, whichever is less. The following guidelines will be used in determining sufficiency of the fund level:~~

- ~~• Ongoing equipment replacement will be scheduled at regular intervals to fulfill minimize the impact on cash flow while preserving the agency's need for updated technology and facilities.~~
- ~~• Equipment needs specific to new program development, and delivery will be included in those specific proposals rather than as part of the larger agency replacement and upgrade schedule.~~
- ~~•~~

## **2. Operations Account**

~~**Purpose:** To provide operating funds to sustain the agency through an unexpected financial crisis or emergency. If such an event occurred, the utilization of Reserve Account funds for operational needs would be essential to the examination and supervisory functions and fulfilling the mission of the Department.~~

~~**Restriction of use:** The Commissioner will advise the Commission of significant events affecting the agency that require use of the account. The Commission may release funds from the Operations Account.~~

~~**Level:** The Operations Account level should be sufficient to fund a total of one month of agency expenses or \$400,000, whichever is less. The examination and supervisory functions are considered essential to the mission of the Department and would be continued long term, even in the event of economic or political adversity. One month is assumed to be a reasonable adjustment period. This timeframe is set to allow the Commission and management to determine which programs are essential to the continued operations of the agency, assess the factors that necessitate the use of account funds and make plans to operate within new parameters of the agency and its environment.~~

## **3. Lump Sum Accrued Leave Payment Account**



**Purpose:** To provide funding to pay accrued vacation and sick leave as required by the [Texas Government Code Sections 661.031-038](#) and [Sections 661.061-068](#).

~~**Restriction of use:** The Commissioner will advise the Commission of significant events relating to an employee's separation/terminating state employment that require use of the account.~~

~~**Level:** The Lump Sum Accrued Leave Payment Account level should be sufficient to cover the projected accrued liability at the beginning of each fiscal year or \$200,000, whichever is less. The actual activity affecting this category account will be evaluated annually to determine if the amount needs should to be incorporated ainto the annual operating plan and budget. Generally, projected costs to consider include upcoming djusted further. Actual payments of vacation and sick leave to retiring/terminating employees, and the appropriate payroll taxes and expenses thereon, will be the only charges to this account. Vacation or sick leave used will not be charged to this account.~~

#### 4. Audit Account

**Purpose:** To provide funds to pay for unanticipated or excessively long audits by either the State Auditor's Office, or other State agencies, or the internal auditor.

~~**Restriction of use:** The Commission is authorized to release funds from the Audit Account for any unanticipated audit.~~

~~**Level:** The Audit Account will be not more than \$50,000.~~

#### 5. Enforcement & Regulatory Response Account

**Purpose:** To provide a fund to bolster the examination and supervision programs when it is necessary to significantly increase monitoring of credit unions or to pay unusual legal costs associated with operating the Department or enforcing credit union compliance with applicable laws.

~~**Restriction of use:** The Commissioner will advise the Commission of significant events affecting the agency that require use of the funds. The Commission may release funds from the Enforcement & Regulatory Response Account.~~

~~**Level:** In order to lessen the effect on credit unions of a special assessment, the Enforcement & Regulatory Response Account will be not more than \$300,000.~~

#### 6. Insurance Account



**Purpose:** To provide funds to cover extraordinary liability claims and deductible levels specified in the agency's insurance policies.

~~**Restriction of use:** The Commissioner will advise the Commission of significant events affecting the agency that require use of the funds. The Commission may release funds from the Insurance Account.~~

~~**Level:** The Insurance Account will be not more than \$20,000.~~

**Restrictions of Use.** The Commission may authorize funds for categorized expenditures for each budget cycle that anticipates such related purchases, or any time unanticipated major building repairs or maintenance expenses arise. However, the Commissioner is provided the authority to utilize funds in the Reserve Account funds when a significant, unanticipated condition exists which warrants an immediate funding need. In such situations, the Commissioner's authority is limited to a maximum usage amount of up to 35 percent of the balance of the Reserve Account and the Commissioner must also provide a comprehensive report to the Commission regarding the expenditure(s) at the next Commission meeting. The report must include the significant, unexpected event(s) which affected the agency and required use of the funds, the amount of funds used and any other pertinent details. Any release of funds above the 35 percent threshold requires approval from the Commission, prior to the use of said funds.

**C. Investment of Reserve Funds.** Since capital preservation and liquidity are the two main objectives for the investment of Contingency Reserve Account funds, investments will be one-with-a short-term, with a and safety focus. The following are the investment guidelines for the investment of Reserve Account funds:

- Maturity for any investment should be no more than 12 months.
- At least 25 percent of the investments shall have a maturity of less than 90 days.
- All investments must be made through the Texas Treasury Safekeeping Trust Company.

All income earned from the investment of the funds contained in the Contingency Fund Reserve Account will be credited to the account, as received each month, to the Operations Account.

**D. Adjustment of Reserve Account Levels.** The Reserve Account levels will be set each year in conjunction with the preparation of the Department's annual budget. Any funds in excess of the prescribed amount sub-account level or the Contingency Fund Reserve aggregate limit as of August 31 of each year shall be used to reduce the operating

fees for Texas credit unions during the next fiscal year.

~~In the event that~~ If any of the Reserve Aaccount levels falls more than 25 percent below the prescribed level, the Department will propose strategies to replenish the ~~applicable~~ account ~~balances~~ over a period not to exceed two years. The strategies for replenishing the accounts may include using one-time revenues, reducing operating expenses, suspending programs not linked to strategic goals, increasing revenues, or any combination of those strategies. If a reduction in the ~~the results of the R~~reserve Account drawn down and its replenishment causes an extreme burden on credit unions, then the replenishment may, with ~~by~~ Commission approval, extend beyond the two years to a maximum of four years.

## **COMMISSION POLICY MANUAL**

### **B. 2. Review of Policy Manual and Proposed Changes and/or General Discussion of the Manual.**

**BACKGROUND:** At the June 10, 2022, Commission Meeting, the Commission Policy Review Committee was created appointing its members. The purpose of the Committee is to review the Manual for changes; to implement within the Manual recommendations from other state agencies such as the Sunset Commission; and to implement other necessary changes that arise.

For this agenda item the Committee will generally discuss proposed changes to the full manual that is under consideration for the March 2023 annual review. These proposed changes are separate from Agenda Item (B)(1), Reserve Policy, Section XX.

**RECOMMENDED ACTION:** No action is anticipated.

C



## **NEXT MEETING AND ADJOURNMENT**

**C. Discussion of and Vote to Establish Date for Next Committee Meeting.**

**BACKGROUND:** If necessary, the next regular meeting of the Committee will be scheduled at this meeting.

**ADJOURNMENT**

# **FUTURE COMMITTEE MEETING DATES**

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**Thursday, March 9, 2023**

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**All regular scheduled meetings will begin at 1:30 p.m. unless notified differently.**

**If anyone has conflicts with the proposed date, please contact Isabel Velasquez at (512) 837-9236.**