

Narrative Information—DA 400

Division of the Budget
State of Kansas

Agency - Department of Credit Unions - 159
Program _____

September 05, 2025

Mr. Adam Proffitt, Chief Budget Officer
Division of the Budget
Landon State Office Building
900 SW Jackson, Suite 504
Topeka, Kansas 66612

Dear Mr. Proffitt:

The biennial budget for Fiscal Years (2025 and 2026) has been prepared per your instructions. This document cites the Department's mission, philosophy, goals and objectives, plan for financing, explanation of expenditures and other required work papers.

Fee income collected for FY 2026, and projected fee income for FY 2027 will cover the requested expenditures for both fiscal years. The agency is presenting the previously approved biennial budget that is equivalent to the approved FY 2025 budget with projected inflationary increases which will be covered by agency fee funds. We are requesting a change packet to cover anticipated expenses associated with the unanticipated drawdown of our federal counterparts at the NCUA. They have historically provided support by way of additional examiners participating on scheduled examinations along with covering training costs and software expenses associated with our examination program.

My staff and I are prepared to provide any additional information that you or your budget analyst may require.

Sincerely,

Julie Murray
Administrator

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AGENCY MISSION

The mission of the Kansas Department of Credit Unions is to protect Kansas citizens from undue risk by ensuring safe and sound operation of state-chartered credit unions.

AGENCY PHILOSOPHY

The Kansas Department of Credit Unions will act in accordance with the highest standards of fairness, accountability, efficiency, honesty and integrity. We affirm that the funds deposited in Kansas-chartered credit unions shall be protected to the best of our abilities.

PROGRAMS ESTABLISHED TO ASSIST WITH AGENCY MISSION

- Examination of Credit Unions
- Supervisory Call Backs (visits)

STATUTORY HISTORY

The Kansas Department of Credit Unions was established in 1968 under K.S.A. 17-2234. Information related to the agency, and credit unions in general, may be found in K.S.A. 17-2201 through K.S.A. 17-2268.

EXTERNAL/INTERNAL ASSESSMENT

Credit unions pay an annual operation fee based on asset size, the amount of which is determined by the Agency Administrator in consultation with the Kansas Credit Union Council and based on expenditure limits approved by the Legislature.

Kansas has 44 natural-person, member-owned, state-chartered credit unions under the Department's supervision. The total assets were \$6,685,925,000 as of 3/31/2025 compared to \$6,461,412,000 as of 3/31/2024. Kansas has one corporate credit union under the Department's supervision. The average assets of the corporate credit union were more than \$1.8 Billion as of 6/30/2025. The Department also assesses fees to out-of-state, non-federally chartered credit unions based on their deposits within the borders of Kansas.

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While the number of credit unions has declined due to mergers, the asset size continues to grow. This growth comes with increased complexity on the credit union's balance sheets and more innovative products and services delivered to members. The continued growth trend also facilitates stable revenue for the agency as the number of credit unions decline.

The examination cycle is an average of 15 months, which falls within statutory requirements of examining each credit union at least one time each 18 months. The examination workload for the Department is managed with a statewide examination team with examiners stationed in four areas of the state: Wichita, Topeka, Kansas City and Salina. Our current examination protocol is that of a hybrid exam team, with half of the team working onsite at the credit union and the remaining working remotely. This practice allows the agency to conserve resources that would be spent on travel and promotes a better work/life balance for the examination team to retain employees on a longer term.

Historically, the KDCU has worked in tandem with the National Credit Union Administration (NCUA). Typically, the NCUA will join KDCU for examinations based on complexity, risk, and frequency requirements averaging between 10-15 examinations. With the recent administration change, the NCUA has reduced the size of their agency by 27%, because of this change, they will be participating in fewer examinations. We are also anticipating additional structure changes to reduce their overall expenses. This could include eliminating the state examiner training program and eliminating the state usage of examination software. Our budget includes a change request that would fund the two vacant positions at current market salaries and contingencies for software and training expenses.

There is a large increase in fee receipts in FY2026 due to the interstate merger between MeriTrust Credit Union and Premier Members Credit Union (Colorado). This merger changed the charter status of MeriTrust Credit Union back to state-charter, thus increasing fee revenue. The increase in revenue will offset the additional funds requested. It will also allow the KDCU to reduce the fee structure to all credit unions starting in FY2027.

The Department of Credit Unions remains as an accredited agency through the National Association of State Credit Unions Supervisors (NASCUS).

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GOAL 1: EXAMINATION OF CREDIT UNIONS

Ensure that all state-chartered credit unions are examined at least every 18 months (K.S.A. 17-2206 (b)).

Objective 1: Examination Cycle

- (a) Maintain an actual examination cycle averaging 18 months or less between each examination.
- (b) Administrative and field staff complete the examination report in less than 60 days.

Strategies 1:

- (a) Administrative personnel will monitor actual performance by reviewing/monitoring reports.
- (b) Administrative staff will continue to review staffing needs.
- (c) Examiners will continue to use the National Credit Union Administration Risk Focused Examination procedures on all state-chartered credit unions.
- (d) Credit unions with problems will be examined no less often than every 12 months. Stable credit unions with favorable CAMEL and risk ratings will be examined at slightly longer intervals but within the Department's statutory 18-month examination requirement.

Outcome Measures:

- (a) The outcome measurement is assessed by date of last examination and is monitored through a quarterly report. The statute requirement is based on the number of months that have elapsed from the date of last examination.
- (b) The Department is presently completing the examination report on a 30-day timeframe prescribed by Department policy.

Output Measures: Examinations Performed

	FY2023	FY2024	FY2025	FY2026	FY2027
Actual	Actual	Actual	Actual	Estimate	Estimate
49	50	36	34	34	34

The number of examinations has decreased due to credit union mergers. While there are a smaller number of credit unions to examine, the complexity of credit unions products and services has increased. This coupled with increased scrutiny on regulatory issues and current economic factors increases the time spent with credit unions on examinations and follow up contacts, which balances out the reduction in examination numbers. We will also see reduced examination participation by the NCUA in the future, this will put a strain on our program due to limited staffing. Funding the vacant FTE's will be necessary to minimize disruption to the program.

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Action Plans:

- (a) Conduct regular meetings to review all monitoring reports.
- (b) Review and research any late reports and determine cause of delay.
- (c) Review staffing needs on a continual basis.
- (d) Review Department policies annually.

GOAL 2: SUPERVISORY CALLBACKS:

Provide for timely supervisory callbacks (on-site visits) and monitoring of problem credit unions.

Objective 2:

- (a) Provide a supervision program for problem credit unions through a call back program.
- (b) Provide the time necessary for this program to work effectively.
- (c) Maintain detailed records of call back records and results.

Strategies 2:

- (a) Determine from examination reports and quarterly call reports, which credit unions will be monitored and those that will need a periodic call back. Callbacks will be done semi-annually, quarterly, monthly or as often as needed by onsite or remote examiner visitation. Timely callbacks will be arranged by reviewing travel schedules and other records. The reports submitted by the field staff will be assembled on a spreadsheet for review by the Administrator.

Outcome Measures:

All CAMEL "3" or "4"-rated credit unions have received a call back within the required time frame as needed. Monthly reports are also reviewed in the office. receive ongoing training to ensure they remain current on corrective actions and measures available for problem resolution related to the credit unions they examine.

(a)

Output Measures: Callbacks Performed

	FY2023	FY2024	FY2025	FY2026	FY2027
Actual	Actual	Actual	Actual	Estimated	Estimated
11	9	12	12	10	10

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Expenditure Justification

5100: Salaries and Wages

The Department's major expenditure in this category is to compensate our examiners and include salaries/wages/department-paid benefits. The increase in the FY2026 salaries/wages/department-paid benefits (over FY2025's actuals) is attributed to funding vacant positions at current market salaries. The agency has experienced vacancies in the recent past but has not prioritized filling those positions; rather we were focused on developing the current staff, enabling the agency to operate on a more efficient model. With the NCUA reduction in examination participation, funding and filling these two vacancies will be critical.

The Department has 12.0 FTE positions, including an Administrator, a Financial Examiner Administrator (FEA), six Financial Examiners (FE), one Administrative Officer and one Administrative Specialist position. The Department currently has two FTE Financial Examiner (FE) positions open and plans to fill those openings in the FY2026.

The change package is to fund the two examiner vacancies at current market pay scales.

5200: Contractual Services

The Department's major expenditures in this category are for travel and subsistence to accomplish credit union examinations and call backs, training for Financial Examiners, rental of office space and copying equipment, communication expenses, fees and dues to professional associations and job-related training.

Our expenses related to contractual services show a slight increase over FY2025 actuals; this increase was to cover inflationary adjustments. The current estimates are figured for 8 traveling employees with 50% travel requirements. Those affected areas include in 525180 Meals and Lodging in State, 525510 Private Vehicle Miles, 526610 Job Related Training & Conference Registration, and 529100 Dues and Subscriptions.

The agency change package includes contingencies for examination software (\$85,000) and contingencies for training and travel (\$60,000) both of which are currently paid for by the NCUA.

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5300: Commodities

The Department expenditures in this category are expected to remain stable.

5400: Capital Outlay

Expenditures in this category would be related to the purchase of office equipment, office furniture and other fixed tangible assets, such as Department vehicles. The agency would be adding one new vehicle to the fleet. This is not a replacement vehicle, it is an additional vehicle for the new hire.

REVENUE ESTIMATES

The Department receives revenues from only one source, fees—the assessment of which is based on the March 31st asset size of the state-chartered credit unions that we examine and supervise. K.S.A. 17-2206(e), as amended, provides that “each credit union shall pay to the Administrator a fee for examination established in accordance with this subsection.” Prior to June 1st of each year, the Administrator, after advising the Credit Union Council, shall establish such annual fees as the Administrator determines to be sufficient to meet the budget requirements of the Kansas Department of Credit Unions.

Fees are assessed according to a fee schedule which currently is similar to the schedule established by the National Credit Union Administration, and which applied to all federally chartered credit unions. The fee schedule for state-chartered corporate credit unions consists of a formula consist with fees assessed on federal corporate credit unions. Credit unions chartered in other states that have physical facilities in Kansas also pay fees based upon their deposits in Kansas. During FY 2023, the agency provided a one-time reduction of 30% in fee assessments to the credit unions. This reduction was given to offset the higher-than-normal balance in the fee fund, which occurred due to staffing shortages and reduced travel during the pandemic.

The Department’s revenues continue to exceed expenditures, even after the \$100,000 required contribution to the state general fund. The Department’s carryover funds as of June 30, 2025, increased to \$1,316,573. Given the increase in carryover funds, the Department will be implementing another one time fee reduction in FY2027 to bring the carryover funds down to a more appropriate level.

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Natural-Person Credit Union Fees

	FY2024 Actual	FY 2025 Actual	FY2026 Actual	FY2027 Estimate	FY2028 Estimate
March 31 Assets	6,227,684,000	6,461,412,000	6,685,925,000	6,899,874,000	7,106,870,000
Asset Growth	3.25%	3.75%	3.40%	3.20%	3.00%
Fees	1,247,229	1,320,710	1,417,916	1,460,453	1,504,266
Out of State CU Fees	325,000	340,000	597,000	614,500	632,935

Corporate Credit Union Fees

	FY2025 Actual	FY2026 Actual	FY2027 Estimate	FY2028 Estimate
March 31 Assets	1,236,017,738	1,872,269,031	1,685,042,127	1,735,593,390
Growth	2%	51%	10%	3%
Fees	25,000	25,000	25,000	25,000

It is worth noting that our corporate credit union acts primarily as a liquidity facility for natural person credit unions, which causes significant fluctuations in asset size. I anticipate that assets will decline next year as interest rates decline and natural person credit unions increase lending.

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	FY 2025 Actual	FY 2026 Actual	FY 2027 Estimate	FY 2028 Estimate
Total Fees	1,597,229	2,039,916	2,099,953	2,162,201
General Fund	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
Net Fees	\$1,497,229	\$1,939,916	\$1,999,953	\$2,062,201

Enhancement Requests

The agency has submitted a request for additional funding, all from our fee funds and all within our current revenue structure. This request is a response to the cuts to the NCUA at the federal level. While KDCU receives no federal funding, we have received assistance from the NCUA in the form of 1) examiner participation in state-chartered credit union examinations, 2) training provided by and paid for by the NCUA, and 3) software for examinations provided by the NCUA. Our request would allow us to fully staff the agency at current market salaries and provide contingencies in the event that training and the software are no longer provided by the NCUA. We have been running efficiently with six examiners in the recent past, but with the reduction in NCUA participation, we will require to fund and fill those positions to meet statutory requirements on examination timelines. There is speculation that the NCUA will discontinue any services not required by federal law; training and software are two identified areas that are at risk.