

# The Finance Commission of Texas

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W. D. Hilton, Jr., Chairman  
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January 27, 1998

The Honorable Jane Nelson  
Chair, Senate Finance Subcommittee on  
Articles 2 and 8 Agencies  
Texas State Senate  
P.O. Box 12068  
Capitol Building  
Austin, Texas 78711

Dear Madame Chairman:

Thank you for this opportunity to comment on the Finance Commission's experience with the budgeting and appropriations process. The attached testimony addresses items 1-9 of the Subcommittee's charges. Because the Commission functions as an oversight board for the Texas Department of Banking, the Office of the Consumer Credit Commissioner, and the Texas Department of Savings and Loans, it has a minimal budget and only recently obtained a full-time staff person. However, this does not exclude the Commission from the budgetary filings, mandated reports, and performance reviews required of all state agencies. I would refer you to the comments in the Banking Department's testimony suggesting that there may be a means of reducing burden and streamlining this process for smaller agencies.

Thank you for rearranging your schedule to allow our Chairman, Mr. Dee Hilton, to appear before your committee on January 21, 1998. We appreciate your flexibility. Please contact me or Randall James if we may answer any other questions.

Sincerely,

Catherine A. Ghiglieri  
Executive Director

CAG/cs  
Encls.

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cc: The Honorable Bob Bullock  
The Honorable Bill Ratliff  
The Honorable Carlos Truan  
The Honorable Royce West  
The Honorable David Sibley  
Finance Commission Members  
John Keel, Director, Legislative Budget Board  
Albert Hawkins, Director, Governor's Office of Budget and Planning  
Lawrence Alwin, State Auditor

The Honorable Jane Nelson  
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bcc: Commissioner Leslie Pettijohn  
Commissioner Jim Pledger  
Commissioner Harold E. Feeney  
Department of Banking Directors  
Department of Banking Regional Directors

*1. Evaluate the usefulness of the agencies' performance measures.*

The only performance measure for the Finance Commission is the number of meetings convened. This is useful in tracking compliance with the statute requiring a minimum of six meetings annually, but does not indicate whether the Finance Commission is accomplishing its general mission of ensuring that the institutions under its oversight operate to enhance the financial well-being of the citizens of Texas. Notwithstanding the fact that the Finance Commission and the three agencies it oversees are totally funded by the regulated entities, the efficiencies and responsiveness of the agencies are also important functions not included as a performance measure.

**2. *Analyze the agencies' accuracy in reporting on performance measures.***

The Finance Commission's one measure is easily defined and tracked. To our knowledge, there has never been any inaccuracy in our performance measurement reports.

**3. *Evaluate agencies' budgets and identify reasons for differences in budget requests and appropriated amounts.***

The Finance Commission received full funding of its request for fiscal year 1998, but did not obtain a requested \$4M addition in fiscal year 1999 to cover projected increases in personnel-related expenses. The Commission's expenses are borne by the Finance Commission agencies in proportion to their appropriations.

	<b>Requested Amount</b>	<b>Appropriated Amount</b>
<b>FY '98</b>	\$ 96M	\$ 96M
<b>FY '99</b>	\$100M	\$ 96M

In addition to the above, the 75th Legislature passed a contingency appropriation of \$100M per year for the 1998-1999 biennium to enable the Commission to conduct a study on the availability of financial services as mandated by the Texas Finance Code. We anticipate using the appropriation, which will be funded by a 50 cent loan transaction fee enacted by SB 251. Revenue from SB 251 is likely to exceed the \$100M per year that has been appropriated. Higher appropriations may be requested in future years to meet the broad mandate of the study.

**4. Examine the history of agencies' unexpended balances and the causes for those balances.**

Actual expenditures were below appropriated levels because Finance Commission members have not used appropriated per diem to cover their travel expenses due to personal tax implications. However, the agency needs the authority to reimburse these travel expenses as allowed under the statute if they are submitted by commission members.

	<b>Appropriated Amount</b>	<b>Amount Expended</b>
<b>FY '96</b>	\$ 9.9M	\$ 6.6M
<b>FY '97</b>	\$ 9.9M	\$ 6.2M

5. *Evaluate agencies' caseload, population or enrollment forecasted methods.*

Not applicable.



**6.     *Monitor agencies' responses to State Auditor reports.***

The Finance Commission has never received an audit from the State Auditors office. As the governing board, the Finance Commission reviews audits performed on the agencies it supervises and approves those agencies' responses. It also tracks implementation of the agencies' promised corrective actions.

7. *Analyze agencies' line-item strategies and determine if they are essential to and reflective of the agencies' missions.*

The Finance Commission has one line-item strategy, which generally reflects the agency's supervisory role, but not necessarily its mission.

The Finance Commission's mission is *to ensure that the banks, savings and loans, and consumer credit grantors chartered or licensed under state law operate as sound and responsible financial institutions that enhance the financial well-being of the citizens of Texas.*

The line-item strategy is summarized as follows:

Insure Safety and Soundness

Hold periodic meetings with the Banking Commissioner, the Consumer Credit Commissioner and the Savings and Loan Commissioner to discuss current operations of each department; promulgate rules; and address policy issues.

Because the agency's role has somewhat expanded with the addition of an administrative law judge and the research responsibilities imposed by the Texas Finance Code and Home Equity amendment to the Texas Constitution, it may be appropriate to expand the agency's performance measures in the future.

**8. *Review increases and decreases in the number of agencies' full- or part-time employees and use of consultant/contract individuals.***

For the last five years, the Finance Commission has employed only a part-time executive director (the Banking Commissioner) to coordinate its administration. Prior to that, it had no staff. Part-time graduate students were retained in 1996 to assist in the mandated research of the availability of financial services at a minimum of expense. On September 1, 1997, the position of administrative law judge was shifted from the Department of Banking to the Finance Commission to comply with the Texas Finance Code.

The Home Equity amendment to the Texas Constitution, passed on November 4, 1997, requires the appointment of a Director of Access to Financial Services at the Finance Commission to study home equity lending in the state. Because no FTE was authorized for this position, the Executive Director of the Finance Commission will fulfill that responsibility. Outside contractors may be retained in the future to perform some of the mandated research work.

- 9. *Evaluate all (i) judgments; (ii) settlement agreements; and (iii) pending legal claims, whether or not asserted in a lawsuit, which will or may impact agencies' FY' 1998-2001 budget periods.***

There are no judgments, settlement agreements, or pending legal claims which are expected to *materially* impact the Finance Commission's fiscal year 1998-2001 budget.