

# Empyrean Presentation

## LEVERAGING YOUR BUDGETING & PLANNING PROCESSES TO OPTIMIZE PERFORMANCE IN TODAY'S ENVIRONMENT

February 8, 2023



CALLAHAN  
& ASSOCIATES

EMPYREAN  
SOLUTIONS

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# OPENING THOUGHT



# TODAY'S SPEAKER

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**BRYAN RIDGWAY**

Director, Financial Performance Solutions,  
Empyrean Solutions, Inc.

With nearly thirty years' experience in the financial risk and performance management areas within the banking industry, Bryan's current responsibilities include helping to define the product strategy and design for Empyrean's performance management solutions, assisting clients and prospects in understanding how Empyrean solutions can help analyze and improve their overall financial performance, as well as speaking and authoring content for both national and regional banking industry events and publications.

Prior to joining Empyrean, Bryan worked for Syntellis' Axiom Software and at Fiserv in both market facing and product management and strategy roles.

Bryan holds an M.B.A. in Global Management from the Thunderbird School of Global Management, and a B.S. in Business Administration from Pepperdine University.

<https://www.linkedin.com/in/bryan-ridgway-2483182/>



# AGENDA

## 1 Market Discussion: Importance of Planning

## 2 Budgeting & Planning Best Practices

- Where to focus to optimize performance
- General best practices

## 3 Key Takeaways, Final Thought, Q&A

# OPTIMIZING YOUR BUDGETING & PLANNING PROCESSES

*WHY NOW?*



# BUDGETING, PLANNING & FORECASTING

*Getting More value Out of Your Processes – Where to Start*



## VISION / STRATEGY

COMMUNICATE & ALIGN PLANS BACK TO VISION & STRATEGY



## WHERE TO FOCUS

ASSESSMENT TO IDENTIFY THE MOST IMPACTFUL AREAS

- Current Financial State
- Current Organizational State
  - Resources, Technology
  - Operations



- Identify Focal Points:
  - Biggest Areas of Impact
  - Strengths & Opportunities for Improvement
  - Areas of Need

# CURRENT STATE ASSESSMENT

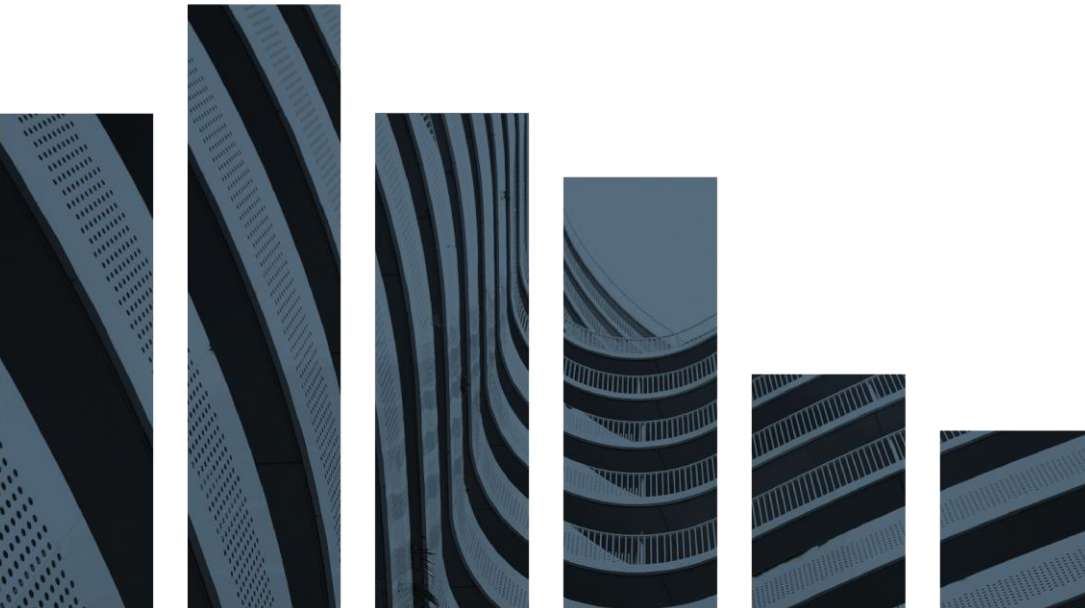
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## ESI FCU

- 91% of Revenue from Net Interest Margin (NIM)
- 64% of Non-Interest Expense is Personnel & Payroll related
- Strategy: increase fee-based revenue (new & existing LOB's)
- Strategy: tech investment to improve operational efficiencies & member services

# BUDGETING & PLANNING BEST PRACTICES

*Specific Areas based on Areas of Focus*



# BUDGETING & PLANNING BEST PRACTICES

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## SPECIFIC AREAS OF FOCUS:

### – Balance Sheet & Margin Planning

#### ESI FCU

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# BALANCE SHEET & MARGIN PLANNING

*If Margin Is a Key Driver of Performance, Cashflow-Based Planning is Critical*

## Balance Sheet & Margin Planning



Current position cash flows

New Business Growth

Interest Rate Forecast

Rate Spreads Forecast

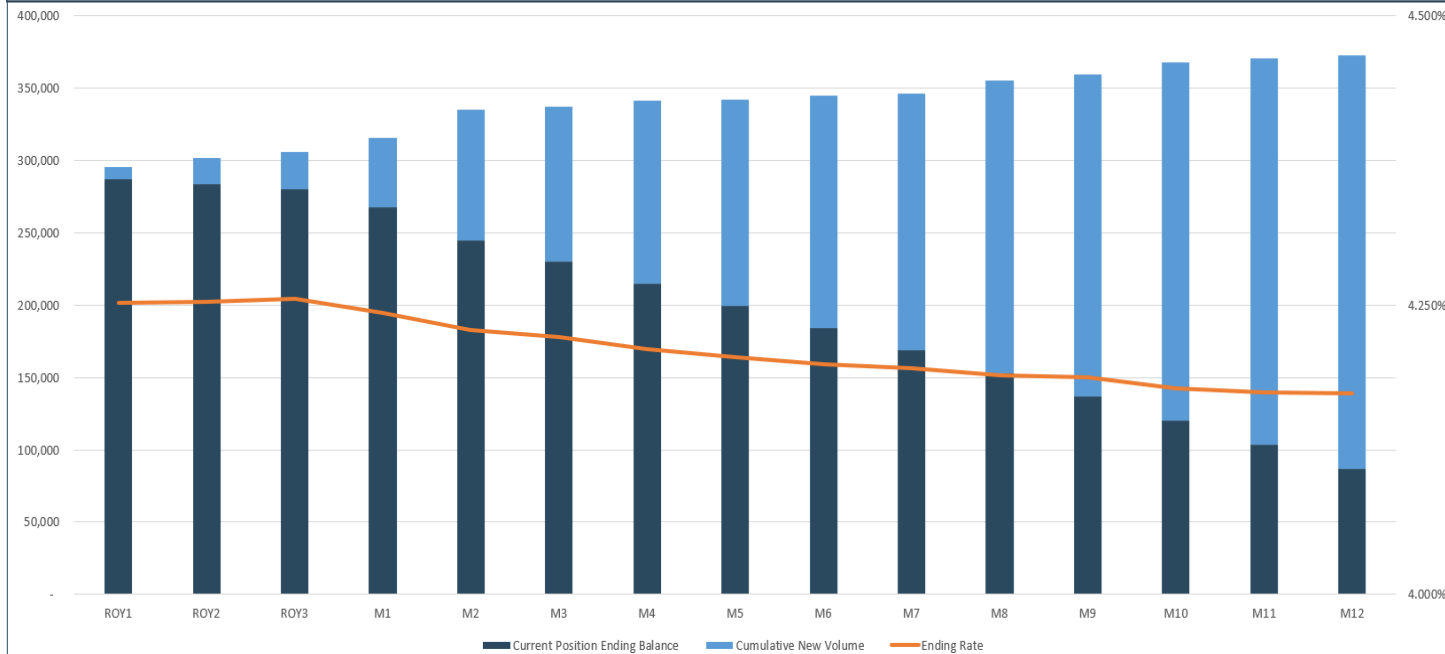
Prepayment Assumptions

Deposit Decay Assumptions

Credit Quality Assumptions

Forecast FTP

### Commercial RE Portfolio Forecast – 2023 Budget



***Based on instrument level cash flows!***

# BALANCE SHEET & MARGIN PLANNING

*Benefits Of Cashflow-based Balance Sheet & Margin Planning*

## ENABLES YOUR CREDIT UNION TO PROJECT:

- Balance Sheet Growth & Structure
  - *Runoff, Maturities, Repricing (contractual & behavioral)*
  - *Production Expectations (origination volume and rate/spread targets)*
- Corresponding Interest Income / Expense
- Expected Yield, COF and Margin impact (institution, dept & product levels)
- Capital position / needs



# BALANCE SHEET & MARGIN PLANNING

*Best Practice Consideration*



## TREASURY & FINANCE COORDINATION

Balance Sheet & Margin Planning  
for ALM & Budgeting / Planning purposes  
are foundationally the same

- **SHARE DATA:** *both use the same instrument data*
- **SHARE ASSUMPTIONS:** *share forecast assumptions (rates, prepays, spreads, etc.)*
- **SHARE RESULTS:** *pass projected results between systems*

***INCREASES EFFICIENCY, CONSISTENCY, ACCURACY!***

# BUDGETING & PLANNING BEST PRACTICES

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## SPECIFIC AREAS OF FOCUS:

- Balance Sheet & Margin Planning
- Personnel & Payroll Planning

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# PERSONNEL & PAYROLL PLANNING

*Flexibility & Capability are the Key*

## STRATEGIC PLAN;

Smaller Proportion of Non-Int. Expense



### GL Level Planning

GL Level Data

Plan by Account / Aggregate Account

At Institution or Dept. Level

Like any other Expense Account

## BUDGET & FORECAST;

Larger Proportion of Non-Int. Expense



### Employee Level Planning

Employee Level Data

Plan Existing Employee Costs (salary, etc.)

New Hire Requests

Transfer & Departure Requests

Payroll Adjustments

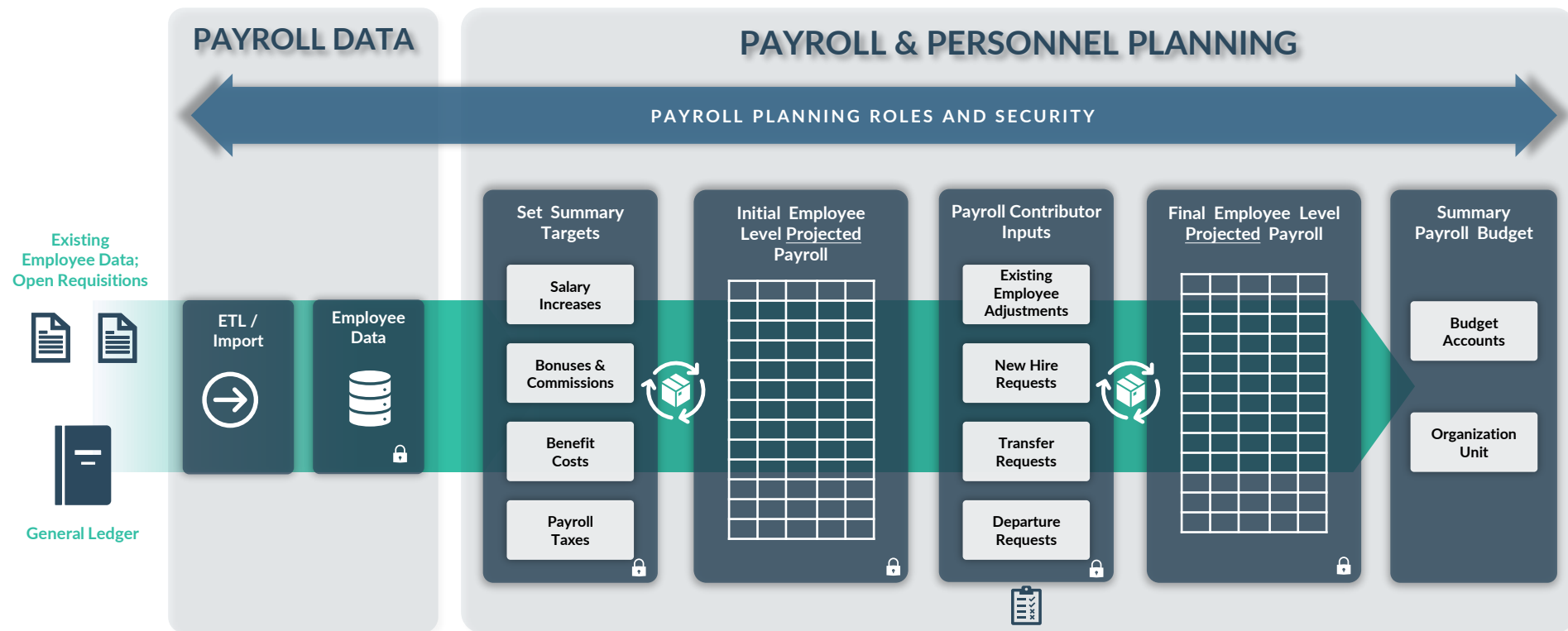
Aggregate to Account & Dept. Levels

Payroll Cost Analysis

Headcount Analysis

# PAYROLL PLANNING

*Employee Level Planning*



# PERSONNEL & PAYROLL PLANNING

## *Employee Level Payroll Planning – Key Considerations*

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**SECURITY:** ensure only the people that should have access, do have access



**DATA:** ensure you have access to the data needed to support the desired level of planning



**PAYROLL ADJUSTMENTS:** allow for top of the house adjustments (e.g., vacancy factor)



**INTEGRATION:** efficiency of planning in one system w/ automatic posting to GL accounts

# BUDGETING & PLANNING BEST PRACTICES

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## SPECIFIC AREAS OF FOCUS:

- Balance Sheet & Margin Planning
- Personnel & Payroll Planning
- Fee income; Non-interest Revenue Planning

### ESI FCU

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# FEE INCOME; NON-INTEREST REVENUE PLANNING

*Best Practice Considerations*



## DRIVER-BASED PLANNING

Derive fee income by linking to underlying drivers (projected volumes, balances, statistics)

NON-INTEREST REVENUE	DRIVER
WEALTH MANAGEMENT FEES	Tie to projected <u>AUM Balances</u>
INSURANCE FEES	Tie to projected <u>Insurance Volumes</u>
TRANSACTION FEES	Tie to projected <u># of Transactions</u>
LOAN ORIGINATION FEES	Tie to projected <u>New Origination Volumes</u>

**INCREASES EFFICIENCY, CONSISTENCY, ACCURACY!**

# FEE INCOME; NON-INTEREST REVENUE PLANNING

Example

## Auxiliary Accounts

Account	Value	Growth Method	Current YTD Amt	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	...	2023 Year End
Wealth Management	Total	Total								
IRAs	Balance	Target Balance	956,522	976,450	996,792	1,017,559	1,038,758	1,060,399	1,082,490	1,276,623
Fund Accounts	New Volumes	Monthly Adds	685,984	17,150	17,578	18,018	18,468	18,930	19,403	969,277
Trusts	Balance	% Growth	123,565	20%	20%	20%	20%	20%	20%	153,221
Insurance	# of Accounts	Monthly Adds	4,598	100	100	150	150	150	175	7,048

## Fee Income Accounts

Account	Growth Method	Current YTD Amt	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	...	2023 Total
Wealth Management	Total								
IRAs	Equation	114,783	14,647	14,952	15,263	15,581	15,906	16,237	205,676
Fund Accounts	Equation	102,898	12,862	13,184	13,513	13,851	14,197	14,552	186,424
Trusts	Equation	57,458	6,384	7,279	7,661	7,661	7,661	7,661	91,932
Insurance	Equation	135,348	15,000	15,000	22,500	22,500	22,500	26,250	337,500

## Key Values With This Approach:

1. Fee Income is auto generated
2. Fee Income is tied to selected drivers & automatically updates based on changes to drivers
3. Fee Income grew by 61%



# BUDGETING & PLANNING BEST PRACTICES

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## SPECIFIC AREAS OF FOCUS:

- Balance Sheet & Margin Planning
- Personnel & Payroll Planning
- Fee income; Non-interest Revenue Planning
- CapEx and Project-based Planning

### ESI FCU

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# CAPEX AND PROJECT-BASED PLANNING

## Standard Capex Planning



Start with existing Fixed Assets & Depreciation schedules

Add new CapEx requests (time, cost, quantity, etc.)

Auto calculates capitalized amount

Auto calculates depreciation & accumulated depreciation

Aggregates to account & department levels

Approve/Reject each CapEx request

## Project-based Planning



Plan @ the Project Level (Initiatives)

Plan both CapEx and OpEx items needed for project

Forecast asset and expense amounts

Assigns amounts to corresponding asset & expense accounts

Assigns CapEx and OpEx items to corresponding Depts.

Approve/Reject at the project level

# CAPEX & PROJECT-BASED PLANNING

## Example of Project-Based Planning

### Project Requests

Name	Description	Submitter	Start Date	End Date	Status
Branch Technology Overhaul	Complete new tech & digital overhaul for all branches	Terri Dactyl - CTO	Mar-23	May-24	Pending
Data Warehouse	Investment in Data lake for all CU data	Terri Dactyl - CTO	Aug-23	Dec-24	Pending
Mobile Platform Rework	Revamp entire Mobile Platform	Allie Gator - Chief Experience Officer	Feb-23	Nov-23	Approved

### CapEx Requests - Branch Technology Overhaul

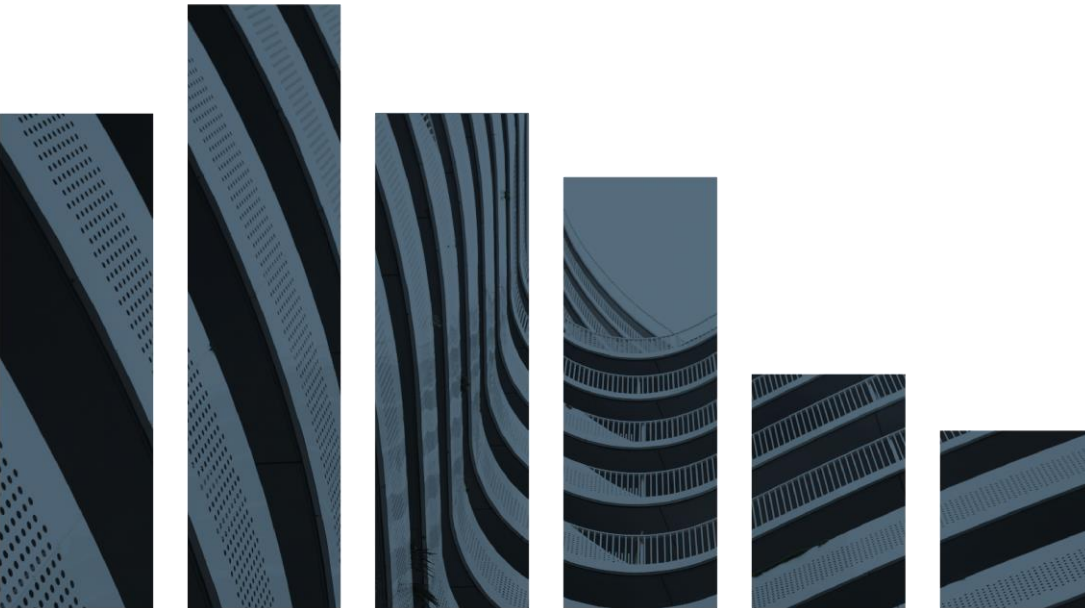
Fixed Asset	Description	Org Unit	Purchase Date	In-Service Date	Purchase Cost (per unit)	Quantity	Total Capitalized Amt	Comments
ITMs	ITM machines for all branches	101, 102, 103, 104, 105, 106	Dec-23	Feb-24	\$12,500	24	\$300,000	Will be charged to each branch
Network Infrastructure	Setup new network & wireless infrastructure	450 - IT	Mar-23	Jul-23	\$10,000	6	\$60,000	Required for project (Central charge)
Lobby Kiosks	New digital kiosks in all branches	101, 102, 103, 104, 105, 106	Dec-23	Feb-24	\$12,500	18	\$225,000	Will be charged to each branch
Video (security & AI)	Update all cameras to support new security &	101, 102, 103, 104, 105, 106	Aug-23	Oct-23	\$25,000	6	\$150,000	Required for project (Central charge)
AI Software	Purchase of new AI software for all branches	450 - IT	Jan-24	Mar-24	\$175,000	1	\$175,000	Centralized IT charge

### OpEx Requests - Branch Technology Overhaul

Expense Account	Description	Org Unit	Pmt Frequency	First Pmt Date	Last Pmt Date	Periodic Expense	Total Plan Expense	Comments
Employee Training	ITM Training	645 - HR	Monthly	Nov-23	Mar-24	\$6,500	\$13,000	Training for all IT and Branch employees
Employee Training	AI Software Training	645 - HR	One Time	Mar-24	Mar-24	\$2,500	-	Training for all IT and Branch employees
Software Expense	AI Software Expense	101, 102, 103, 104, 105, 106	Monthly	Mar-24	Feb-27	\$2,917	-	Monthly software expense
Network Expense	Network and WIFI monthly expense	450 - IT	Monthly	Apr-23	Mar-26	\$7,500	67,500	
Maintenance Expense	Est. Hardware Mnt. Exp. (ongoing)	101, 102, 103, 104, 105, 106	Annual	Aug-23	Dec-27	\$10,000	2,000	Just an estimate

# BUDGETING & PLANNING BEST PRACTICES

*Additional Best Practices, Key Takeaway*



# ADDITIONAL BEST PRACTICES

*Additional Considerations For a More Effective & Efficient Planning Process*



## COLLABORATION

Right People Planning the Right Areas  
Centralized...Decentralized...Hybrid



## SUB-LEDGER LEVEL PLANNING

Plan at a more granular level...where impactful & helpful



## FORECASTING

Need to be AGILE...suggest Monthly or Quarterly



## PERFORM SCENARIO ANALYSIS

What does your plan look like under different growth & market scenarios...WHAT IF YOU'RE WRONG?



## TIE BACK TO STRATEGY & VISION

Does your plan support your vision & 2-5 year strategy?  
Communicate...Communicate...Communicate!

# RECAP

BEST PRACTICES TO OPTIMIZE PLANNING AND PERFORMANCE

## START WITH YOUR VISION & STRATEGY

### IMPACT / CURRENT STATE ANALYSIS (identify most impactful drivers for your CU)

- *Identify key drivers of performance*
- *Identify strategic needs*
- *Focus on those areas*
- *Think...time, effort, precision, value!*
- *Balance sheet & margin planning*
- *Personnel & payroll planning*
- *Certain non-interest areas*
- *Capex & project-based planning*

## RIGHT PEOPLE, RIGHT AREAS, RIGHT LEVEL

## FORECASTING & SCENARIO ANALYSIS

# KEY TAKEAWAY

*Continuous Performance Management Cycle*



## VISION

**YOUR COMPASS: What / Where You Want to Be**

# FINAL THOUGHT

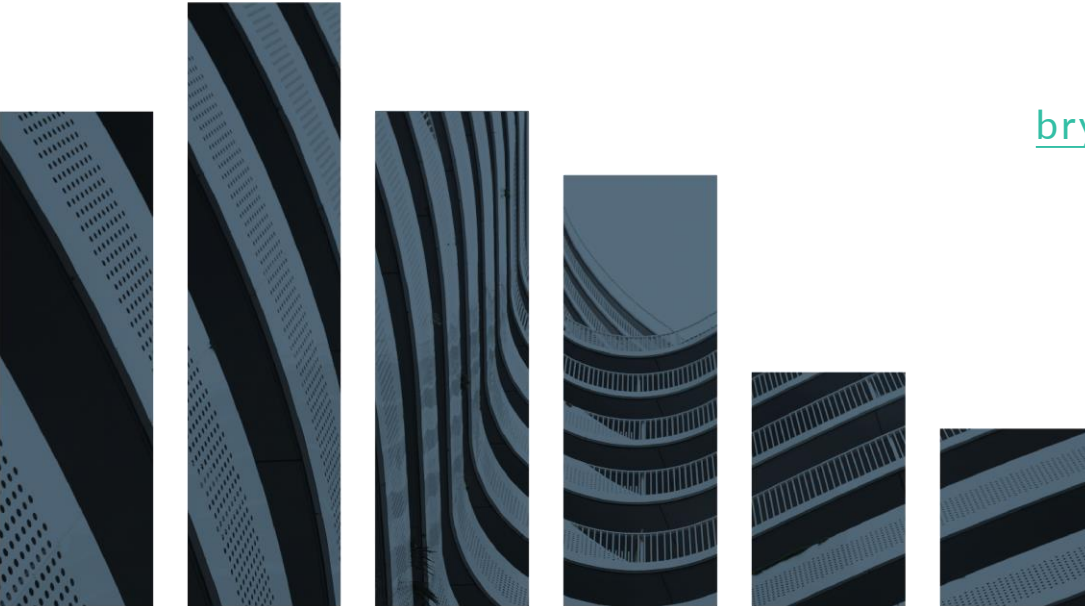


***EFFICIENT, AGILE, ALIGNED, IMPACTFUL!***



# THANK YOU!

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CALLAHAN  
& ASSOCIATES



**Q&A**

