BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: December 16, 2005

To: Board of Governors

From: Donald L. Kohn DLK

Subject: 2006 Final Reserve Bank Budgets

The Committee on Federal Reserve Bank Affairs has reviewed staff's recommendation that the Board approve the Reserve Bank budgets for 2006. In aggregate, the 2006 Reserve Bank budgets total $2,786.3 million, an increase of $134.1 million or 5.1 percent over 2005 estimated expenses. I am forwarding the attached staff memorandum to the Board for its consideration.

Attachment

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

Date: December 12, 2005

To: Committee on Federal Reserve Bank Affairs

From: Lauren Oriente, Cathie Austin, Stuart Sperry, Dorothy LaChapelle, and Paul Bettge

Subject: 2006 Final Reserve Bank Budgets

ACTION REQUESTED

Staff requests Committee review of its recommendation that the Board approve the 2006 Reserve Banks' budgets totaling $2,786.3 million, an increase of $134.1 million or 5.1 percent over the 2005 estimated expenses.[1] Staff also requests Committee review of its recommendation that the Board approve the 2006 Reserve Bank, FRIT, and OEB capital budgets totaling $474.2 million. The capital budgets are approved with the understanding that approval for actual capital outlays will be in accordance with the Board's Policies and Guidelines Concerning Reserve Bank Operations (S-2619). We have attached additional statistical information that provides detail on expenses, staffing, and capital outlays.

---

[1] These expenses include those budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB) that are chargeable to the Reserve Banks.

TOTAL EXPENSE AND EMPLOYMENT SUMMARY

The 2006 expense increase of $134.1 million or 5.1 percent is largely driven by costs in the check service for further infrastructure changes and operational improvements, and in the central bank function, reflecting increases in monetary policy and supervision and regulation. These increases are offset partially by savings from consolidated Treasury operations, cash efficiency initiatives, and savings from prior check restructuring efforts, as well as continued efforts to streamline Reserve Bank support areas.

Table 1
Reserve Bank Expenses and ANP
(Dollars in Millions)

	2005 Budget	2005 Estimate	2006 Budget	Change 2005 Est. - 2006 Bud. Amount	Percent
Central Bank Services	$1,484.0	$1,495.7	$1,581.0	$85.3	5.7%
Treasury Services	$403.6	$379.2	$409.5	$30.4	8.0%
Priced Services	$775.5	$777.3	$795.8	$18.5	2.4%
Total Expense	**$2,663.1**	**$2,652.2**	**$2,786.3**	**$134.1**	**5.1%**
ANP	**19,967**	**20,133**	**19,869**	**1.3%**	**-1.3%**

Approximately 48 percent of Reserve Bank expenses in the 2006 budget are offset by priced service revenues (33 percent) and reimbursable claims for services provided to the Treasury and other agencies (15 percent). Budgeted 2006 revenue is lower than the 2005 estimated level, primarily as a result of declining check volume. Reimbursable claims will increase 7.8 percent in 2006, reflecting additional efforts by the Reserve Banks on behalf of the Treasury.

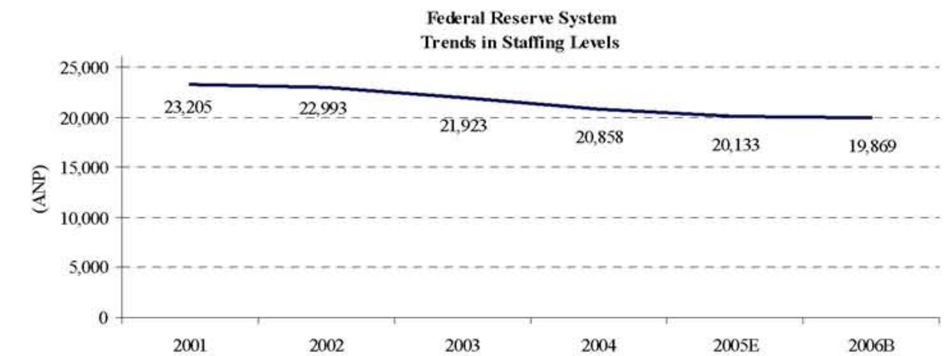
Table 2
Change in Net Expenses
(Dollars in Millions)

	2005 Budget	2005 Estimate	2006 Budget	Percent Change 05B-06B	05E-06B
Total Expense	$2,663.1	$2,652.2	$2,786.3	4.6%	5.1%
Less:					
Priced Services Revenue[1]	$901.7	$959.9	$912.6	1.2%	-4.9%
Reimbursable Claims	$424.9	$399.0	$429.9	1.2%	7.8%
Net Expense	**$1,336.5**	**$1,293.3**	**$1,443.8**	**8.0%**	**11.6%**

[1] Based on the final budget submission.

Total 2006 projected employment for the Reserve Banks, FRIT, and OEB is 19,869 ANP, a decrease of 264 ANP or 1.3 percent from 2005 estimated staff levels.[2] The 2006 staffing decrease continues the trend of workforce reductions that began in the late 1990s. The 2006 budgeted staff reduction reflects the effect of infrastructure changes

[2] ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who works one-half of the year counts as 0.5 ANP for that calendar year; two half-time employees who work the full year count as 1 ANP.



and volume declines in both check and currency processing, as well as the full-year effect of consolidation of Treasury retail securities operations. Lower staffing levels are also the result of efforts to increase efficiency in the internal support areas such as information technology and human resources.

2005 BUDGET PERFORMANCE

Total 2005 expenses are estimated to be $2,652.2 million, which represents a decrease of $10.9 million or 0.4 percent from the approved 2005 budget of $2,663.1 million. The Banks, FRIT, and OEB estimate 2005 ANP at 20,133, an increase of 166 ANP from 2005 budgeted levels. The expense underrun is mainly driven by lower costs for Treasury Web Applications Infrastructure (TWAI) ($12.0 million), as well as reduced FRIT costs ($3.0 million).[3] The decrease in TWAI costs reflects lower vendor costs after contract terms were negotiated in 2005. The reduction in FRIT costs is largely due to lower hardware and software expenses as a result of efficiency initiatives such as server management and lower fees resulting from renegotiated vendor contracts.

Also contributing to the underrun are lower costs in cash operations as a result of volume declines ($2.6 million) and in Treasury services ($2.0 million) due to a later-than-expected implementation of the new Go Direct campaign, which is an effort to convert Social Security and Supplement Security Income check receivers to direct deposit.

These reductions are partially offset by higher-than-budgeted costs in several areas, including check ($7.3 million), information technology ($5.0 million), protection ($3.7 million), and cash ($1.4 million). The increase in check costs is driven by a lower-than-projected decline in volume, delays in the schedule to consolidate three

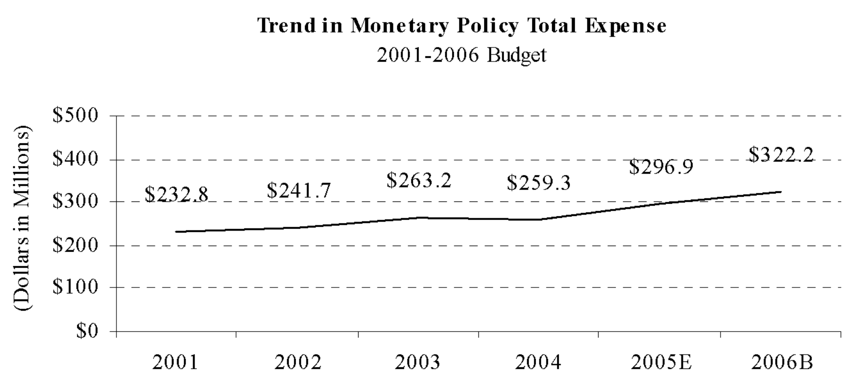
[3] TWAI provides a multi-tiered web environment that balances the business need for a secure access system with the need to provide public access to Treasury applications.

offices' check operations, and higher Check 21 expenses. Information technology costs are higher-than-budgeted due to initiatives for the Treasury and System open market areas. Other increases include higher costs in the protection function and one-time costs related to cash infrastructure changes. These changes, which were announced after the final 2005 budget was approved, involve transitioning cash services at several branches to cash depots.

FACTORS AFFECTING THE 2006 BUDGET

The 2006 budget supports Reserve Banks' efforts to increase efficiency and reduce costs, including funding several initiatives to improve long-term operational efficiencies in both cash and check operations. In addition, the Reserve Banks have budgeted to expand economic research and community outreach efforts, to enhance expertise in the supervision and regulation function, and to continue to provide services as requested by the Treasury.

Total costs for monetary policy and economic research are increasing $25.3 million or 8.5 percent in the 2006 budget. Staffing levels are increasing 51 ANP, due in part to the full-year effect of several Banks' efforts initiated in 2005. In large part, the increase reflects Banks' efforts to strengthen support to monetary policy formulation and increase emphasis on regional economic analysis and payments research.



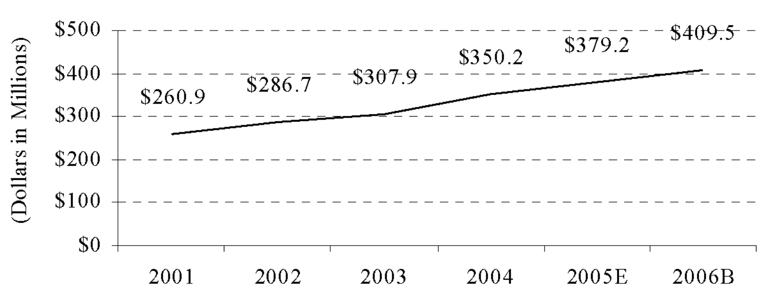
Costs for public programs and depository institution outreach efforts are increasing $6.6 million or 4.6 percent and staffing levels are increasing by 16 ANP. Reserve Banks are looking to enhance their presence and strengthen outreach efforts particularly in regions where there is only a limited Federal Reserve presence.

Supervision and regulation costs are increasing $31.0 million or 6.0 percent from the 2005 estimate. Staffing levels, which have declined slightly in recent years primarily due to the loss of staff in a highly competitive job market, are increasing by 102 ANP. Increases in the 2006 budget are related to bringing staff back to optimal levels, efforts to recruit and retain staff, primarily for specialized skills, efforts to enhance the supervisory processes associated with compliance risk and risk management techniques, and resources to develop revised capital adequacy guidance.

Expenses in cash operations are increasing $16.7 million or 4.1 percent to fund initiatives to improve the long-term efficiency of cash operations, define future cash System software requirements, and upgrade high-speed currency processing machines. These increases are offset slightly by staffing reductions due to declining volume in several Reserve Banks and infrastructure changes. As part of the effort to improve efficiency, three Reserve Bank offices will shift their currency processing operations to other Reserve Banks and establish cash depots. In establishing a cash depot, the Federal Reserve contracts with a third party, usually an armored carrier, to accept currency deposits from, and distribute currency orders to, depository institutions. The Reserve Bank in the city nearest the depot processes the deposits, prepares the orders for the depots, and pays for the transportation between the Reserve Bank and the depot operator.

Costs for Treasury services, which are fully reimbursable, are increasing $30.4 million or 8.0 percent. The increase reflects investments in electronic payment technology, partially offset by efforts to improve the efficiency of other, more labor intensive operations through consolidations. For several years, the Federal Reserve, at the request of the Treasury, has focused on improving its automation of electronic payments projects, including the development of a web application

Trend in Treasury Services Total Expense
2001-2006 Budget



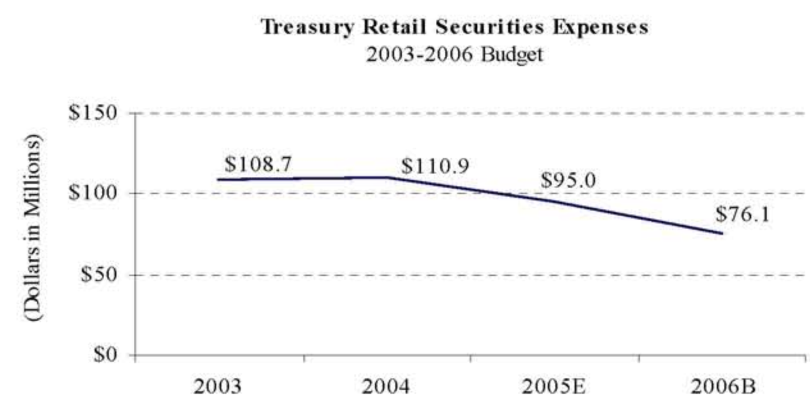
infrastructure (TWAI). Total costs for the TWAI are budgeted to increase $4.7 million or

7.4 percent to support enhancements of the TWAI environment and projected growth in services using TWAI.

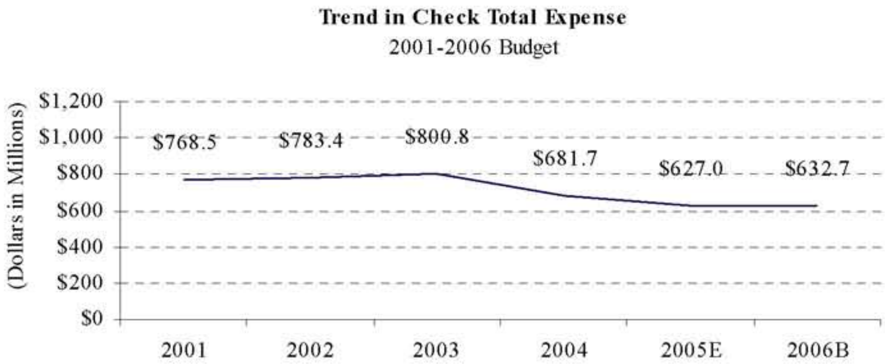
Costs for the Treasury's Payment Application Modernization (PAM) project are increasing $5.8 million in the 2006 budget, mainly for additional technical staff. PAM will replace approximately 30 Financial Management Service (FMS) applications used to disburse one billion federal payments annually. Also in 2006, costs for the Treasury Check Information System (TCIS) will increase $3.0 million. TCIS will replace the FMS' aging check payment and reconcilement system. The new system will provide an up-to-date, web-enabled, paperless office environment for managing 250 million Treasury check payments annually.

Costs related to e-government projects – Pay.gov, Paper Check Conversion, and Electronic Check Processing – are increasing $2.3 million primarily due to additional software amortization, transaction fees for user verification services, and staff additions of 7 ANP. In addition, costs related to the Stored Value Card program will increase $2.2 million for software and equipment depreciation and continued expansion of the program.

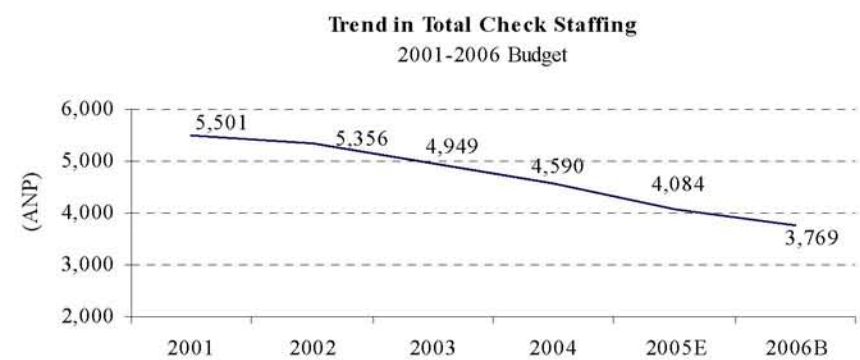
The consolidation of Treasury Retail Securities (TRS), completed in October 2005, continues to produce savings in Treasury operations. The effort, which began in 2004, reduced the number of offices with savings bond and *TreasuryDirect* operations to two. Since 2003, costs for TRS have decreased $32.6 million or 30 percent and staffing levels have decreased 134 ANP.



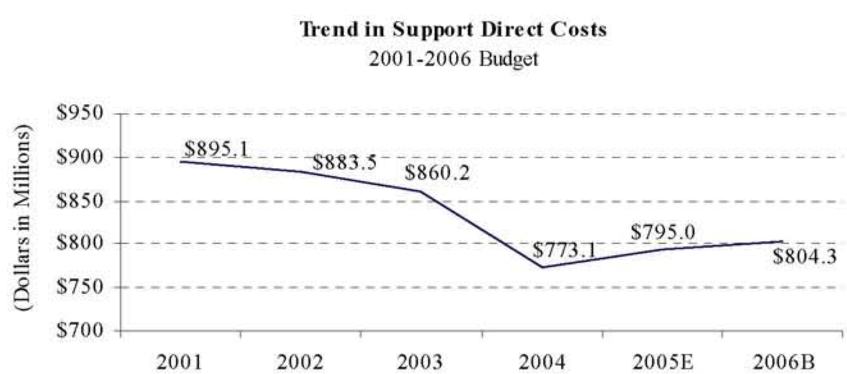
Total check services expenses are increasing $5.7 million or 0.9 percent from the 2005 estimate. The increase reflects one-time costs to prepare for further check operation consolidations, as well as other initiatives underway to improve the efficiency of check operations, including investments in Check 21 technology to accommodate increased volumes. These increases are offset partially by lower costs as a result of infrastructure changes in 2005 and early 2006. Check processing staffing levels are decreasing 338 ANP, slightly offset by an additional 24 ANP in national administrative functions.



Since 2001, total check costs have declined $135.8 million and staffing levels have declined by 1,732 ANP. During this period, the Federal Reserve undertook two major efforts to improve the efficiency of check operations: modernizing check operations by installing uniform software and hardware for check processing, imaging, and adjustments, and reducing the number of check operations sites to align better the Federal Reserve check processing infrastructure with the evolving market. By year-end 2005, a total of nineteen check processing sites will be consolidated, with an additional five sites planned to be consolidated by early 2007, reducing the number of check operations sites from forty-five in 2003 to twenty-one.



Also influencing costs are Reserve Bank support functions, which, after several years of dramatic cost decreases, are increasing slightly ($9.3 million or 1.2 percent) in 2006. The increase primarily reflects higher depreciation costs for completed security and building projects ($10.5



million). These increases are offset partially by lower cost in other support areas. Since 2001, support costs have declined $90.8 million or 10.1 percent, reflecting efforts to improve efficiencies in several support areas, including information technology, financial management, human resources, and business development. As has been the case in the last few years, staffing levels in the support functions will continue to decline; a 104 ANP decrease is projected in 2006.

In 2006, local information technology costs are decreasing $5.2 million and 69 ANP as Banks continue to align services with the changing needs of the Banks. Since 2001, local information technology costs have declined $62.2 million and staffing levels have declined 728 ANP, facilitated in large part by efficiencies gained by centralizing several functions and reduced demand for desktop services as a result of lower overall Bank staffing levels.

After several years of significant reductions, local human resource administrative costs are expected to decline slightly in 2006 (-$1.3 million). Since 2001, costs in the human resource function have declined $14.2 million and staffing levels have declined by 246 ANP as the Banks move to more centralized functions. The reductions have been achieved as a result of efficiencies gained through consolidations of PeopleSoft, payroll, and System medical plans, as well as outsourcing responsibility for thrift and retirement plan administration to the OEB.

2006 PERSONNEL EXPENSES

Budgeted officer and employee salaries and other personnel expenses total $1,810.9 million, which is 3.2 percent above the 2005 estimate. This total includes an increase of $58.3 million to fund salary administration programs for officers and employees.[4] Reserve Bank merit pools are increasing 3.7 percent for officers and 3.5 percent for employees, about the same as in 2005.

Variable pay programs, which are increasing $3.9 million or 0.3 percent, account for 3.8 percent of 2006 salary expense. Of the increase, approximately 75

---

[4] Salary administration represents the budgeted funds that are available to increase compensation to officers and employees in the upcoming year. It does not include adjustments for changes in staffing levels, turnover and lag in hiring, and overtime.

percent is related to incentive pay programs. The Reserve Banks' salary administration programs continue to emphasize pay-for-performance in 2006.

Of the projected 2,447 ANP leaving Reserve Banks, FRIT, and OEB in 2006, an estimated 37 percent will not be replaced (Table 3), primarily due to planned staff reductions associated with financial services restructuring. Turnover in 2006 is expected to be higher than in 2005 due in large part to continued consolidation in check and cash.

Table 3
2006 Turnover

	Officers	Employees	Total
Total Number of ANP Leaving the Bank	45	2,402	2,447
Total ANP not Replaced	15	893	908
Total Replaced	30	1,509	1,539
ANP replaced due to retirement	*16*	*214*	*230*
ANP replaced due to other reasons	*14*	*1,295*	*1,309*

Retirement and other benefit expenses, which account for 14.8 percent of 2006 Reserve Bank budgets, are anticipated to increase by approximately $18.0 million or 4.6 percent in 2006. The primary driver of the increase is higher health care costs. Reserve Banks have undertaken a number of initiatives over the past several years to control the increase in health care costs, including increasing insurance deductibles and co-pays, replacing several local plans with national plans, consolidating prescription drug programs, and renegotiating administrative services contracts. In 2006, the Banks will continue to identify opportunities for controlling health care costs, such as implementing new wellness and disease management programs that provide employees information on healthy lifestyles and early detection of disease.

RISKS IN THE 2006 BUDGET

Risks to the 2006 budgets consistently expressed by the Reserve Banks include the effect of material changes to check restructuring schedules or plans, significant variances in check volume from budgeted assumptions, changes in the scope or direction of the various Treasury projects, and potential additional cash infrastructure changes.

The check service continues to be an area where Banks have identified a considerable amount of risk, primarily because of the number, scale, and dynamic nature of initiatives in the area. The six check processing consolidations planned through year-end 2005 have been completed, and an additional four consolidations are planned for 2006. Check administrative functions are now handled from central locations and the Reserve Banks have announced plans to further consolidate check adjustment operations from twelve to five sites. Delays in the check restructuring schedule could result in the need for higher-than-budgeted personnel and facility costs. In addition, the budget would be affected by any unbudgeted write-offs as a result of restructuring. The Retail Payments Office also cites a risk associated with increases in fuel costs.

Projected check volume reflects anticipated run-off at processing sites that have been consolidated at other locations and the increasing shift from paper-based to electronic payments. The combination of these two factors has resulted in a 2006 projected volume decrease of about 14 percent. As experienced in several Banks in 2005, if the decease in volume is not as great as planned, the Banks would incur costs for higher-than-planned staff levels (which would be offset by the revenue associated with the increased volume).

As in the past, unforeseen requests from the Treasury or changes in scope and direction of projects would add costs and could require additional resources in 2006. In the cash function, the cash infrastructure changes could increase costs in several Reserve Banks. If additional cash depot arrangements are approved, the affected offices could see an increase in personnel severance costs in 2006.

2006 CAPITAL PLAN

The 2006 capital budget submitted by the Reserve Banks, FRIT, and OEB totals $474.2 million. As in previous years, the 2006 capital budget includes funding for projects that support the strategic direction outlined by the individual Reserve Bank and System plans. These strategies focus on investments that improve operational efficiencies and services to Bank customers, and on providing a safe and quality work environment. In support of these strategies, the 2006 budget identifies seven major categories of capital outlays: building projects and facility improvements, security enhancements, automation and communication initiatives, payment system improvements, cash services initiatives, treasury initiatives, and miscellaneous acquisitions.

The proposed capital budget includes $252.0 million for building-related projects and facility improvements and $64.2 million for security enhancement initiatives. Nearly $104.0 million of the capital budgeted for Reserve Bank facilities is for new building projects in Kansas City and Seattle.

The Reserve Banks and FRIT have included $73.0 million in funding for major automation and communication initiatives. These initiatives do not include the automation components of building or payment systems initiatives discussed separately. Of the total automation-related outlays, FRIT projects and acquisitions account for almost half or $35.3 million. The budget also includes $13.5 million for server replacement and applications for the Federal Reserve Bank of New York's Markets Group.

Another $80.5 million in capital outlays is budgeted for payment systems, cash, and Treasury initiatives. A majority of this total ($50.2 million) has been requested to fund Treasury initiatives, including $16.1 million for the TWAI project and $12.9 million for the e-Government projects.

Attachment

APPENDIX
Statistical Supplement

Notes: In the following tables, Reserve Bank expenses include those budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB) that are chargeable to the Reserve Banks.

Components may not add to totals because of rounding. Table-to-table comparisons may also differ due to rounding.

Table 1

2006 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by District, 2005 and 2006
(Dollars in Thousands)

District	2005 Budget	2005 Estimate	2006 Budget	Percent Change 05B to 05E	Percent Change 05E to 06B
Boston	155,553	149,708	156,366	-3.8%	4.4%
New York	500,686	506,894	531,652	1.2%	4.9%
Philadelphia	128,516	126,321	136,874	-1.7%	8.4%
Cleveland	184,225	183,197	193,910	-0.6%	5.8%
Richmond	192,960	196,920	208,758	2.1%	6.0%
Atlanta	296,587	296,490	336,118	0.0%	13.4%
Chicago	254,035	246,805	246,141	-2.8%	-0.3%
St. Louis	215,553	207,336	220,140	-3.8%	6.2%
Minneapolis	144,866	142,969	148,999	-1.3%	4.2%
Kansas City	159,879	164,771	164,182	3.1%	-0.4%
Dallas	170,815	177,745	183,129	4.1%	3.0%
San Francisco	259,450	253,004	260,030	-2.5%	2.8%
Total	**2,663,125**	**2,652,162**	**2,786,299**	**-0.4%**	**5.1%**

Table 2

2006 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS
by District, 2005 and 2006
(Average Number of Personnel)

District	2005 Budget	2005 Estimate	2006 Budget	Change 05B to 05E	Change 05E to 06B
Boston	1,099	1,055	1,041	-43	-15
New York	2,947	2,967	2,978	20	11
Philadelphia	1,110	1,085	1,078	-25	-7
Cleveland	1,543	1,553	1,597	10	44
Richmond	1,832	1,821	1,847	-11	25
Atlanta	2,042	2,070	2,033	28	-37
Chicago	1,577	1,631	1,534	55	-98
St. Louis	1,123	1,160	1,150	37	-10
Minneapolis	1,298	1,283	1,287	-15	4
Kansas City	1,429	1,431	1,344	1	-87
Dallas	1,243	1,329	1,315	85	-14
San Francisco	1,924	1,942	1,866	18	-76
Subtotal	**19,168**	**19,328**	**19,069**	**160**	**-259**
FRIT	759	765	757	6	-8
OEB	40	40	43	0	3
Total	**19,967**	**20,133**	**19,869**	**166**	**-264**

Table 3

2006 Final Budget

TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by Service Line
(Dollars in Thousands)

Year	Total	Monetary and Economic Policy	Services to U.S. Treasury and Gov't Agencies	Services to Financial Institutions and the Public	Supervision and Regulation	Fee Based Services to Financial Institutions
2001	2,443,276	232,829	260,882	580,436	443,483	925,647
2002	2,532,512	241,732	286,729	603,385	463,349	937,317
2003	2,620,538	263,221	307,868	627,119	493,569	928,762
2004	2,517,679	259,263	350,158	608,075	483,315	816,868
2005 Estimate	2,652,162	296,908	379,186	679,397	519,407	777,264
2006 Budget	2,786,299	322,242	409,546	708,310	550,446	795,755
AAGR 2001-2006	**2.7%**	**6.7%**	**9.4%**	**4.1%**	**4.4%**	**-3.0%**

Table 4

2006 Final Budget

TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS[1]

by Service Line
(Average Number of Personnel)

Year	Total	Monetary and Economic Policy	Services to U.S. Treasury and Gov't Agencies	Services to Financial Institutions and the Public	Supervision and Regulation	Fee Based Services to Financial Institutions[2]	Support, Overhead, and Centralized Providers
2001	23,205	885	1,384	2,819	2,574	5,397	10,146
2002	22,993	856	1,291	2,848	2,604	5,139	10,255
2003	21,923	862	1,221	2,769	2,577	4,701	9,792
2004	20,858	845	1,301	2,698	2,562	4,347	9,104
2005 Estimate	20,133	883	1,295	2,729	2,561	3,328	9,335
2006 Budget	19,869	935	1,304	2,728	2,663	2,987	9,251
AAGR 2001-2006	**-3.1%**	**1.1%**	**-1.2%**	**-0.7%**	**0.7%**	**-11.2%**	**-1.8%**

[1] Includes average number of personnel at FRIT and OEB.

[2] The decrease in 2004 actual to 2005 estimate in Fee Based Services to Financial Institutions ANP reflects an accounting change that resulted in a shift of 554 ANP to national support included in the Support, Overhead, and Centralized Providers category.

Table 5

2006 Final Budget

SALARY ADMINISTRATION EXPENSES OF THE FEDERAL RESERVE BANKS

Officers and Employees by District, 2006
(Dollars in Thousands)

	Additions to Salary Base				Variable Pay (Change 05E-06B)				
District	Merit	Promo & Reclass	Market Adjustment	Subtotal	Cash Awards	Incentive Payments	Subtotal	Total	Percent[1]
Boston	2,442	193	378	3.9%	31	21	0.1%	**3,065**	**4.0%**
New York	10,074	2,595	2,192	5.1%	-89	1,957	0.6%	**16,730**	**5.8%**
Philadelphia	2,065	310	155	3.8%	52	134	0.3%	**2,717**	**4.1%**
Cleveland	2,743	577	750	4.8%	42	88	0.2%	**4,200**	**4.9%**
Richmond	3,534	953	676	4.4%	261	95	0.3%	**5,518**	**4.7%**
Atlanta	4,166	777	605	4.5%	-53	40	0.0%	**5,534**	**4.5%**
Chicago	3,553	500	150	3.9%	59	35	0.1%	**4,297**	**4.0%**
St. Louis	2,292	313	0	3.5%	66	139	0.3%	**2,810**	**3.8%**
Minneapolis	2,024	337	0	3.2%	-33	-10	-0.1%	**2,318**	**3.2%**
Kansas City	2,719	873	624	4.8%	-158	319	0.2%	**4,376**	**5.0%**
Dallas	2,485	167	137	3.6%	119	482	0.8%	**3,390**	**4.4%**
San Francisco	4,173	900	0	3.2%	558	-209	0.3%	**5,422**	**3.4%**
FRIT	2,031	319	0	3.3%	0	-87	-0.1%	**2,264**	**3.2%**
OEB	164	66	0	4.8%	0	29	0.6%	**259**	**5.4%**
Total	**44,464**	**8,880**	**5,666**	**4.2%**	**857**	**3,031**	**0.3%**	**62,899**	**4.5%**

Merit: the amount of budgeted salary expense that reflects the cumulative effect of planned salary increases based on performance.

Promo & Reclass: the amount of budgeted salary expense that reflects the cumulative impact of salary increases for individuals as a result of grade promotions and reclassifications resulting from a job evaluation

Market Adjustment: the amount of budgeted salary expense to bring individual salaries to the minimum of a grade range or to better align salaries with the market.

Cash Awards: the change in the amount of payments for awards in recognition of exceptional achievements.

Incentive Payments: the change in the amount of other personnel expense that represent payments for the achievement of pre-determined goals.

[1] Percent represents the total of the stated payments as a percentage of total salary and other personnel expense.

Table 6

2006 Final Budget

CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS
by District, 2005 and 2006
(Dollars in Thousands)

District	2005 Budget	2005 Estimate	2006 Budget	Percent Change 05B to 05E	Percent Change 05E to 06B
Boston	22,130	33,676	24,843	52.2%	-26.2%
New York	59,454	48,588	69,737	-18.3%	43.5%
Philadelphia	10,225	12,489	20,966	22.1%	67.9%
Cleveland	34,592	31,610	28,157	-8.6%	-10.9%
Richmond	41,249	29,444	58,623	-28.6%	99.1%
Atlanta	9,521	10,815	17,335	13.6%	60.3%
Chicago	71,651	97,524	20,841	36.1%	-78.6%
St. Louis	25,472	31,910	42,743	25.3%	33.9%
Minneapolis	5,192	4,047	4,782	-22.1%	18.2%
Kansas City	28,339	34,430	74,738	21.5%	117.1%
Dallas	33,113	40,989	9,874	23.8%	-75.9%
San Francisco	38,547	26,331	49,753	-31.7%	89.0%
Subtotal	**379,484**	**401,852**	**422,392**	**5.9%**	**5.1%**
FRIT	51,010	39,278	51,771	-23.0%	31.8%
OEB	-	160	-	N/A	N/A
Total	**430,494**	**441,290**	**474,163**	**2.5%**	**7.4%**

Table 7

2006 Final Budget

CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS[1]
by Category, 2005 and 2006
(Dollars in Thousands)

	2005 Budget	2005 Estimate	2006 Budget	Percent Change 05B to 05E	Percent Change 05E to 06B
Building Related Projects and Facility Improvements	245,245	251,762	252,029	2.7%	0.1%
Payment System Improvement Initiatives					
Retail Payment Initiatives	17,871	16,019	18,924	-10.4%	18.1%
Cash Services Initiatives	15,155	12,298	11,368	-18.9%	-7.6%
Treasury Initiatives	50,490	52,070	50,246	3.1%	-3.5%
Automation and Communication Initiatives	61,704	72,603	72,966	17.7%	0.5%
Security Enhancements	35,431	30,959	64,156	-12.6%	107.2%
Miscellaneous[2]	4,599	5,578	4,472	21.3%	-19.8%
TOTAL	**430,494**	**441,290**	**474,163**	**2.5%**	**7.4%**

[1] Capital outlays for the Federal Reserve System include the twelve Districts, FRIT, and OEB.

[2] Miscellaneous includes other equipment and software not falling into the other defined categories.