

Board of Governors of the Federal Reserve System



***Annual Report to the Congress on the
Presidential \$1 Coin Program***

July 2007

Board of Governors of the Federal Reserve System



***Annual Report to the Congress on the
Presidential \$1 Coin Program***

Submitted to the Congress pursuant to section 104
of the Presidential \$1 Coin Act of 2005

July 2007

Contents

I. Executive Summary 1

II. Introduction..... 4

III. Background..... 5

 Federal Reserve’s Role in Currency and Coin Distribution 5

 Experiences with Commemorative Circulating Coins..... 5

 Overview of the Presidential \$1 Coin Act 7

IV. Presidential \$1 Coin Program 9

 Outreach to Stakeholders 9

 Program Details 11

 Special Ordering Period..... 11

 Special Packaging and Order Increments 12

 Differences from the Sacagawea \$1 Coin Program..... 12

 Technology Modifications 13

 Communications 13

V. George Washington \$1 Coins 14

 United States Mint’s Demand Estimate..... 14

 Demand for Previous Commemorative Circulating Coin Releases..... 14

 Reserve Banks’ Demand Survey and Order 14

 Orders from the United States Mint..... 15

 Payments to Circulation..... 15

 Reserve Bank Inventories 17

 Customer Feedback from the George Washington Release 18

VI. John Adams \$1 Coins 20

VII. Federal Entities Compliance 21

 Board and United States Mint Leadership 21

 Leading by Example 22

VIII. Remaining Obstacles to the Improved Circulation of \$1 Coins 23

IX. Recommendation for Legislative Action 24

I. Executive Summary

Section 101 of Public Law 109-145, the Presidential \$1 Coin Act of 2005, states “the Congress finds that there are sectors of the United States economy, including public transportation, parking meters, and vending machines, in which the use of a \$1 coin is both useful and desirable for keeping costs and prices down.” For a variety of reasons, previous designs for \$1 coins, including the Sacagawea \$1 coin introduced in 2000, have not been widely used by the public in everyday transactions. The success of the 50 State Quarters Program, however, prompted the Congress to create a similar program with a regularly changing design for \$1 coins.¹

The Presidential \$1 Coin Act (Act) requires the Federal Reserve and the United States Mint to take steps to ensure that an adequate supply of \$1 coins is available for commerce and collectors at such places and in such quantities as are appropriate.² To address these requirements, the Federal Reserve has collaborated with the United States Mint to develop program roles and responsibilities; identify challenges based on past experiences with the Sacagawea \$1 Coin Program, the 50 State Quarters Program, and the Westward Journey Nickel Series; discuss options for production, ordering processes, packaging, and distribution; develop a strategy for a market study; and coordinate obtaining stakeholder input. The Act also requires the Secretary of the Treasury to mint and issue annually the Sacagawea \$1 coin for circulation in quantities of no less than one-third of the total \$1 coins minted and issued each year of the Presidential \$1 Coin Program.

The Federal Reserve and the United States Mint conducted national and local outreach with a wide range of coin users to gather ideas, advice, and information to help plan for the introduction of the new coins. The Federal Reserve used feedback from these meetings, along with its experiences from other commemorative circulating coin programs and the Reserve Banks’ and the United States Mint’s market research, to develop program elements to ensure a smooth rollout of the \$1 coins, beginning with the George Washington \$1 coin.

Under the program developed by the Federal Reserve and the United States Mint, the Reserve Banks enable depository institutions to order and receive the new coins for the two-week period before the release date to have them on hand for immediate availability to their customers on the release date. In addition, the Reserve Banks make each new design available to the public in unmixed quantities for a four-week period. The new program also includes new packaging and ordering increments to help make the \$1 coins more useful for commerce.³ Unlike the Sacagawea \$1 coins, the presidential \$1 coins are distributed initially from Reserve Banks to the public

¹ The Federal Reserve has noted that the success of the 50 State Quarters Program can be attributed to the public’s regular use of quarters for daily transactions and the additional collector demand resulting from the rotating design.

² The Presidential \$1 Coin Act establishes, among other requirements, a program under which the United States Mint issues a new series of \$1 coins commemorating deceased former presidents in the order that they served. The United States Mint will issue four new Presidential \$1 coin designs per year; the first \$1 coin, commemorating George Washington, was issued on February 15, 2007.

³ The Federal Reserve also made available mixed, previously circulated \$1 coins to satisfy demand from customers that specifically requested mixed \$1 coins.

through depository institutions.⁴

The Federal Reserve estimated demand for the George Washington \$1 coin using primarily the United States Mint's demand and acceptance study, the Reserve Banks' survey of its largest depository institutions (largest volume coin orderers), and the Federal Reserve's experience with other circulating commemorative coins. Based on this research, the Reserve Banks ordered 303 million George Washington \$1 coins from the United States Mint. Every Reserve Bank office had unmixed supplies of the coins available throughout the six-week special ordering period, from February 1 through March 15, 2007. A presidential \$1 coin workgroup, including representatives from the Board, the Reserve Banks, and the United States Mint, monitored inventories across the country throughout the ordering period and managed coin inventories so that no Reserve Bank coin site exhausted its supplies of the new coins. As of March 15, 2007, the Reserve Banks had paid approximately 212 million George Washington \$1 coins to circulation throughout the nation.

Estimating demand for the \$1 coin is complicated because experience suggests that demand for the \$1 coin increases only temporarily, and then returns to historically low levels after an introductory period. As demand decreases, the excess \$1 coins are returned to the Reserve Banks. Although still early in the program, there is no evidence to date that the public's interest in the presidential \$1 coins for transactions has materially increased, or that its preference for the \$1 note has diminished. If the public does not increase its usage of \$1 coins for daily transactions, the rotating design requirement of the Act will further exacerbate increasing inventories at the Reserve Banks.⁵ Accordingly, the Federal Reserve will monitor demand carefully and will adjust future \$1 coin orders, as necessary, to reflect expected demand and address potential future shortages in storage space at Reserve Banks and their offsite terminals. For example, based on the Reserve Banks' demand survey of the largest volume coin orderers, the Federal Reserve's order for the John Adams \$1 coin was reduced to about 200 million. Depository institutions ordered approximately 158 million John Adams \$1 coins from the Reserve Banks during the special ordering period, which ended on June 14, 2007.

Given that the Reserve Banks had sufficient inventories of \$1 coins to meet market demand before the start of the Presidential \$1 Coin Program and that supplies have increased further after the release of the George Washington and John Adams \$1 coins, the Reserve Banks will not order more Sacagawea \$1 coins unless needed to meet demand. The Act requires the Board to submit an annual report to the Congress that contains, among other requirements, such recommendations for legislative action the Board may determine to be appropriate.⁶ Accordingly, the Federal Reserve recommends that the Congress amend the Act to provide that the Secretary shall mint and issue Sacagawea \$1 coins as needed to meet public demand.

⁴ For the Sacagawea program, the United States Mint initially made the new \$1 coins available exclusively through a major retailer rather than through the Reserve Banks to depository institutions. The United States Mint modified its strategy for the Presidential \$1 Coin Program to make the new coins available exclusively to the Reserve Banks so that they could facilitate the widespread availability to the general public, through the nation's depository institutions.

⁵ For example, Reserve Bank inventories of \$1 coins increased more than 135 percent from about \$70 million as of December 31, 2006, to about \$165 million as of March 31, 2007.

⁶ 31 USC 5112 (p) (3)(B)(iii).

As the initial distributor of the \$1 coins to the public through the nation's depository institutions, the Federal Reserve has focused its attention on distributional enhancements that could facilitate the ease with which the public obtains these coins. In support of the program, the Federal Reserve will continue working with the United States Mint to determine whether additional opportunities exist that could improve the public's ability to obtain the \$1 coins that they want, whether for transactions or as collectibles.

II. Introduction

Section 104 of the Act directs the Board of Governors of the Federal Reserve System (the Board) to assess and report to the Congress the remaining obstacles to the efficient and timely circulation of \$1 coins; the extent to which the goals of consultations with industry representatives, the vending industry, and other coin-accepting organizations are being met; and any appropriate recommendations for legislative action. This report constitutes the Board's assessment, to date, of the program, of our consultations with industry representatives, and of the remaining obstacles to \$1 coin circulation, and provides a recommendation for legislative action.

Since shortly after the Act was signed by the President, the Federal Reserve has met with the United States Mint to develop program roles and responsibilities; identify challenges based on past experiences with other commemorative circulation coins; discuss options for production, ordering process, packaging, and distribution; develop a strategy for a market study; and coordinate obtaining stakeholder input. The Federal Reserve used the feedback from the stakeholder meetings, as well as the lessons learned from other commemorative circulating coin programs, to implement changes to its \$1 coin distribution practices to make the coins widely available and in forms more useful for commerce.

Based on Federal Reserve and United States Mint research, the Reserve Banks ordered 303 million of the George Washington \$1 coins and paid out to depository institutions approximately 212 million as of March 15. Additional research and experience with the George Washington \$1 coin led the Reserve Banks to order 200 million John Adams \$1 coins from the Mint, and depository institutions ordered approximately 158 million of the coins from the Reserve Banks as of June 14. Most of the 133 million in excess presidential \$1 coins remain as inventory at the Reserve Banks and their offsite terminals. These supplies brought total Reserve Bank inventories of all \$1 coins to \$211 million as of June 15, 2007. The Federal Reserve's experiences with other circulating commemorative coins have shown that initial excess inventories can be managed down as long as there is regular public demand for these coins for transactional purposes. For the \$1 coin programs, however, the Reserve Banks have often encountered large excess inventories for much longer periods because transactional demand for these coins is very low. The Federal Reserve will assess demand carefully as the Presidential \$1 Coin Program continues so that it can manage these coins within the context of effective public policy and the constraint of limited storage space.

III. Background

Federal Reserve's Role in Currency and Coin Distribution

One of the key responsibilities of the Federal Reserve is to ensure that currency and coin are available to meet the public's needs. The twelve District Reserve Banks provide wholesale currency and coin services to more than 9,500 of the nearly 17,400 banks, savings and loans, and credit unions (collectively, depository institutions) in the United States. The depository institutions that choose not to receive cash services directly from the Reserve Banks obtain them through correspondent banks. The depository institutions, in turn, provide cash services to the general public.

Each year, the Board determines the need for new currency, which it purchases from the Department of the Treasury's Bureau of Engraving and Printing at approximately the cost of production. The Reserve Banks issue Federal Reserve notes at face value, and these notes are recorded as liabilities on the Reserve Banks' balance sheets. The Reserve Banks, as required by law, pledge collateral (principally U.S. Treasury securities) equal to the value of currency in circulation, which was approximately \$783 billion as of December 31, 2006. In 2006, the Federal Reserve returned \$29.1 billion to the Treasury, primarily from earnings on securities purchased in the process of putting notes into circulation.

The Federal Reserve also provides coins to the nation's depository institutions, but its role is somewhat different than that for currency. The United States Mint issues circulating coins that the Reserve Banks purchase at face value and record as assets on their balance sheets. The Reserve Banks distribute coins to the banking industry through two channels. First, the Reserve Banks accept some coin deposits directly from depository institutions and pay out some coin orders to depository institutions. Second, the Reserve Banks work with armored carriers, which operate coin terminals to hold, process, and distribute coin to depository institutions on behalf of the Reserve Banks. At present, there are 180 coin terminals that store about 60 percent of the Federal Reserve's coin inventory and are key partners for daily distributional activity. The value of U.S. coins in circulation as of December 31, 2006, was approximately \$37 billion, or about 5 percent of total currency and coin in circulation.

Experiences with Commemorative Circulating Coins

The Federal Reserve has supported the commemorative circulating coin programs since they began about eight years ago, by distributing about 1.3 billion Sacagawea dollars, 28 billion state quarters, and 3 billion commemorative nickels. The Federal Reserve's experiences with the demand for other commemorative circulating coins provided the following insights:

- **The last redesign of the dollar coin did not lead to a sustained increase in demand.**

Net payments of dollar coins into circulation increased to \$558 million in 2000 because of efforts to stimulate and meet demand during the introduction of the Sacagawea dollar coins.⁷ Once the public satisfied its initial interest in collecting Sacagawea coins, demand for dollar coins returned to historical levels. In 2005, net payments of dollar coins by the Reserve Banks totaled approximately \$61 million, which is about the same level of annual net payments experienced in the five years prior to the introduction of the Sacagawea dollar. The Sacagawea dollar was not successful in substantially stimulating transactional demand because it appears that some of the largest obstacles to dollar coin circulation do not relate to the design of the coin. For example, while organizations that primarily accept payment at vending machines or other automated equipment have indicated that dollar coins are a less-costly alternative than dollar notes for them, other sectors of the retail industry have indicated that their costs for handling dollar coins are much higher than those associated with dollar bills.

- **Commemorative circulating coin programs have required changes to Reserve Banks' coin distribution practices.**

As a general rule, demand for coin for transactional purposes can be met by any design of a denomination. For example, a retailer that orders nickels or quarters from its bank typically does not care what design(s) it receives. Demand for a commemorative circulating coin by collectors, however, is design-specific. To meet the temporary surge in demand for new designs of commemorative circulating coins, the Reserve Banks have agreed to suspend their normal practice, for an introductory period, of first paying out previously circulated coins to depository institutions and instead pay out only the new design. This introductory period has ranged from about four weeks for the 50 State Quarters and Westward Journey Nickels programs to more than two years for the Sacagawea dollars. Following these initial introductory periods, the Reserve Banks fulfill orders for coin from their inventories, irrespective of coin design.

- **The need to distribute multiple coin designs poses continuing inventory challenges for the Reserve Banks that must be managed carefully.**

In recent years, the Reserve Banks and the United States Mint have improved their forecasting of coin demand, and the Reserve Banks have managed coin inventories more efficiently. These efforts have allowed the Reserve Banks to lower their orders from the United States Mint for each new quarter design from a peak of 1.6 billion for the Virginia quarter in 2000 to roughly 500 million for recently introduced state quarter designs. At their 2003 peak, Reserve Bank quarter inventories reached \$749 million, equal to about twelve months of net payments. Because of regular public demand, improved demand estimates, and inventory management from a national perspective, the current stock of quarters is about \$469 million, equal to about seven months of net payments.

⁷ Net payments to circulation is defined as gross payments to circulation less gross receipts from circulation.

- **Before the start of the Presidential \$1 Coin Program, the Federal Reserve and the United States Mint already held large inventories of dollar coins.**

As of December 31, 2006, Reserve Banks held about \$70 million in dollar coins, or enough inventory to meet current transactional demand for about 12 months. In addition, the United States Mint held inventory of about \$110 million Sacagawea dollar coins. Together, these inventories of dollar coins would have met demand for approximately two-and-a-half years. Given that the Reserve Banks and the United States Mint have an ample supply of \$1 coins to meet market demand and that the Presidential \$1 Coin Program will likely increase inventories further, the Reserve Banks may not need to order more Sacagawea dollars from the United States Mint for a number of years.

Overview of the Presidential \$1 Coin Act

President Bush signed the Presidential \$1 Coin Act of 2005 on December 22, 2005. The Act requires the Secretary of the Treasury to mint and issue four new \$1 coins each year in honor of the nation's deceased former presidents and to mint and issue annually the Sacagawea \$1 coin in quantities of no less than one-third of the total \$1 coins minted and issued each year of the Presidential \$1 Coin Program.⁸ The sense of the Congress in passing this legislation was that—

- The Act will serve to increase the use of \$1 coins generally, which will increase the circulation of the Sacagawea \$1 coins.
- The continued minting and issuance of the Sacagawea \$1 coins will serve as a lasting tribute to the role of women and Native Americans in the history of the United States.
- The full circulation potential and cost-savings benefit projections for the \$1 coins are not likely to be achieved unless the coins are delivered in ways useful to ordinary commerce.
- The presidential \$1 coins will not be introduced with an overly expensive taxpayer-funded public relations campaign.
- In order for the circulation of \$1 coins to achieve maximum potential—
 - the coins should be as attractive as possible and
 - the director of the United States Mint should take all reasonable steps to ensure that all \$1 coins minted and issued remain tarnish-free.
- If the United States Mint includes a mark on any \$1 coin denoting the United States Mint facility at which the coin was struck, the mark should be edge-incused.

The presidential \$1 coins offer new design features intended to increase \$1 coin acceptance and demand for both numismatic collection and use in ordinary transactions. The new coin features:

- *Edge-incused inscriptions.* The inscription of the year of minting or issuance of the coin and the inscriptions “E Pluribus Unum” and “In God We Trust” are along the rims of the coins.
- *Rotating designs.* The United States Mint will issue four circulating coin designs each

⁸ The United States Mint issued the first coin, commemorating George Washington, on February 15, 2007, and the second coin, commemorating John Adams, on May 17, 2007.

year commemorating the presidents of the United States in order of their periods of service, beginning with George Washington.

- *Tarnish resistance.* The coins will be treated to resist tarnishing.

The Congress also included provisions in the Act to address factors that may have served as impediments to the circulation of \$1 coins in the past, including the following—

- *Acceptance by agencies and instrumentalities.* Federal agencies and transit systems that receive subsidies or funds from the federal government must take appropriate actions to ensure that—
 - they will be fully capable of accepting and dispensing one-dollar coins in connection with their business operations involving cash.
 - they will display signs and notices denoting such capabilities on the premises where coins or currency are accepted and dispensed, including vending machines.Further, the Federal Reserve and the United States Mint must work closely with these agencies and instrumentalities to facilitate compliance with these requirements.
- *Publicity.* The United States Mint must work with consumer groups, media outlets, and schools to ensure news coverage and other public awareness about the inauguration of the Presidential \$1 Coin Program without an overly expensive, taxpayer-funded public relations campaign.
- *Availability of the new one-dollar coins.* The Federal Reserve and the United States Mint must take steps to ensure that an adequate supply of the new coins is available for commerce and collectors.
- *Unmixed supplies.* During an introductory period, the Federal Reserve and the United States Mint must make available unmixed supplies of each newly minted design in packaging of sizes and types appropriate for ordinary commerce.
- *Report to Congress.* The Act directs the Board and the United States Mint to assess and report to Congress the remaining obstacles to the efficient and timely circulation of \$1 coins; the extent to which the goals of consultations with industry representatives, the vending industry, and other coin-accepting organizations are being met; and any appropriate recommendations for legislative action.

In addition to the recognition of the nation's presidents, the Act also requires the United States Mint to issue gold bullion coins commemorating the nation's first spouses, gold bullion coins featuring the American buffalo, and, in 2009, a redesigned one-cent coin to commemorate the life of Abraham Lincoln.

IV. Presidential \$1 Coin Program

During the past year, the Federal Reserve worked with the United States Mint to develop an effective and efficient Presidential \$1 Coin Program.

The Presidential \$1 Coin Act establishes a program under which the United States Mint will issue four new presidential \$1 coin designs per year. The first coin, commemorating George Washington, was issued on February 15, 2007. In January 2006, the Federal Reserve began meeting with the United States Mint to develop program roles and responsibilities; identify challenges based on past experiences with the Sacagawea \$1 Coin Program, the 50 State Quarters Program, and the Westward Journey Nickel Series; develop a strategy for a market study; and coordinate obtaining stakeholder input.

A Presidential \$1 Coin Workgroup, which includes representatives from the Board, the Reserve Banks, and the United States Mint, was established to develop and coordinate the ordering, production, shipping, storage, communication, and technical plans for the program. One subgroup, including Reserve Bank and United States Mint representatives, developed the production and distribution methodology, including order increments, shipments, timing, frequency, storage locations, and modeling. A Reserve Bank subgroup recommended the information technology solutions necessary to implement the program effectively. A Federal Reserve communications subgroup recommended and implemented the communication and training strategy for the Reserve Banks' internal and external users and stakeholders. The full workgroup met regularly to discuss and develop all aspects of the new production, ordering, packaging, and distribution practices. Additionally, the Federal Reserve Bank of San Francisco, which manages the Reserve Banks' Cash Product Office, detailed a high-level staff member to the United States Mint for six months to bolster program coordination and communication between the Federal Reserve and the United States Mint.

Outreach to Stakeholders

Throughout the past year, the Federal Reserve and the United States Mint consulted with a variety of stakeholders to identify the requirements for a successful \$1 coin program.

These stakeholders included depository institutions, armored carrier companies, transit authorities, retailers, federal agencies, vending machine operators, coin collectors, and other \$1 coin users.

The Federal Reserve and the United States Mint co-hosted two coin users group forums at the United States Mint's headquarters in Washington, D.C., the first on June 8, 2006, and the second on November 8, 2006. At these forums, Federal Reserve and United States Mint officials communicated the requirements of the Act, the new design features of the coins, and our ordering, packaging, distribution, and communication strategies. The Federal Reserve and the United States Mint held additional meetings with the American Bankers Association's (ABA) Community Bankers Council; the ABA \$1 Coin Task Force; the Independent Community Bankers Association's Payments and Technology Committee; America's Community Bankers' Electronic Banking and Payment Systems Committee and Retail Banking, Operations, Security, and

Technology Committee; and the Federal Reserve’s Cash Customer Advisory Council. The Federal Reserve also met with the Coalition for the Presidential \$1 Coin, the Independent Armored Car Operators Association, and the National Armored Car Association. As shown in table 1, participants provided useful feedback that helped us develop the details of the Presidential \$1 Coin Program.

Table 1
Feedback Raised by Stakeholders

Distribution and Awareness Issues	Federal Reserve Response
Distribute the new coins to depository institutions before retailers.	Agreed; depository institutions are the sole initial public source for presidential \$1 coins.
Distribute the coins in advance of the release date so they are available throughout the distribution network on the public release date.	Agreed; Reserve Banks fill orders from depository institutions for two weeks before the public release date.
Distribute presidential \$1 coins in unmixed quantities.	Agreed; for a six-week period for each release, Reserve Banks distribute new-design coins in unmixed quantities.
Distribute the coins in rolls as well as bags.	Agreed; Reserve Banks distribute the coins in \$1,000 boxes containing \$25 rolls and in \$2,000 bags.
Conduct extensive outreach to the banking industry.	Agreed; the Federal Reserve has held many consultative meetings with and sent numerous written communications to the banking industry and armored carriers.
Increase retailer awareness.	Agreed; the Federal Reserve and the United States Mint jointly hosted a retailer forum in November 2006, and the United States Mint has conducted additional outreach with the retail industry.
Delays in retail checkout lines could result if cashiers must explain or promote the coins.	Agreed; advance public awareness about the coins may lessen the number of instances when cashiers need to explain the coins.
Automated cash register equipment rarely dispenses \$1 coins, necessitating modification.	On many types of automated cash register equipment, one column of the change dispenser can be modified to dispense \$1 coins.
The commingling of \$1 coin designs makes it more difficult for retailers to provide the new coins that customers want.	For a six-week period, the Reserve Banks offer presidential \$1 coins in unmixed quantities.
The tarnish on the Sacagawea \$1 coin made it difficult to quickly identify the coin.	The United States Mint confirmed that it developed a new tarnish-resistant coating for the coins.
It is difficult to estimate customer demand in advance of the program.	The Reserve Banks maintain sufficient supplies to meet initial depository institution demand.
Businesses only promote products that improve their profits, and the additional business costs associated with handling \$1 coins do not improve profits.	Some retailers indicated that they are receptive to displaying educational materials about the new coins, which the United States Mint offers through its website at no charge.

In addition to the distribution and awareness issues, stakeholders made the following general observations: (1) most consumers and businesses prefer dollar bills to \$1 coins; (2) dollar coins are heavier and more difficult for the public to handle than dollar bills; (3) \$1 coins are more expensive for retailers and depository institutions to process and handle than dollar bills; and (4) some businesses have observed stronger growth in the use of electronic payments compared with currency and coin. For example, the Federal Reserve understands that the United States Postal Service (USPS), a current large user of \$1 coins, has an objective to eliminate stamp vending machines over the next three years and increase its use of automated postal centers, which accept card-based payments. The USPS cites, among other reasons, customer dissatisfaction with receiving dollar coins in change. In addition, some mass transit authorities have informed the Federal Reserve and the United States Mint of their strategy to shift their fare revenue from cash to electronic payments over the next several years. Some transit authorities are already encouraging customers to use contactless cards because they increase customer throughput and reduce costs to the transit authorities. In some markets, the transit authorities are charging a premium for customers that choose to use cash (currency or coin).

Consistent with the requirements of the Act, the Federal Reserve and the United States Mint will continue to co-host coin user group forums and other outreach meetings with stakeholders, as appropriate, to learn whether further opportunities exist to improve the order, production, and distribution of the coins. The feedback that we received at the forums and meetings held over the past year was particularly helpful in developing the current Presidential \$1 Coin Program.

Program Details

Using the feedback received from coin user groups and our experience with other commemorative circulating coin programs, the Federal Reserve developed distribution plans to ensure a smooth rollout of the presidential \$1 coins.

Special Ordering Period

In order to help ensure the availability of \$1 coins on the release date, the Reserve Banks established a six-week special ordering period and modified their cash services agreement with depository institutions. The revised agreement provides that depository institutions, coin terminals, and armored carriers may order and receive new-design \$1 coins two weeks before the public release date in order to facilitate timely distribution. By pre-staging inventory with these entities, the \$1 coins are available for payment directly to the general public on the day of the official release. The special ordering period ends four weeks after the release date. For example, the ordering period for the George Washington \$1 coins began on February 1 and lasted through March 15. The Federal Reserve will evaluate the length of the special ordering period over time and adjust it, if appropriate, to better suit demand.⁹

⁹Previously, the Reserve Banks generally paid the new coin designs to the depository institutions, coin terminals, and armored carriers on the day of the release, which would not always allow the general public to receive them on the release date.

Special Packaging and Order Increments

In response to stakeholder feedback, the Reserve Banks allow depository institutions, during the special ordering period, to order \$1 coins in increments of 1,000, rather than the normal minimum order of 2,000. The standard order during the special ordering period includes rolled presidential \$1 coins (\$25 rolls) packaged in boxes containing 40 rolls per box (\$1,000 boxes).¹⁰ Previously, customers could only order \$1 coins in bags containing 2,000 loose, previously circulated, mixed \$1 coins (\$2,000 bags).¹¹ Depository institutions may also contact their Reserve Banks during the special ordering period to request \$2,000 bags of loose, unmixed presidential \$1 coins.¹² After the special six-week period, the Reserve Banks and their coin terminals resume paying out coin on a standard “first-in, first-out” (FIFO) basis, in standard \$2,000 bags of loose, previously circulated, mixed \$1 coins.

Differences from the Sacagawea \$1 Coin Program

As shown in table 2, the Presidential \$1 Coin Program differs significantly from the Sacagawea \$1 Coin Program. For example, the Federal Reserve and the United States Mint agreed that the presidential \$1 coins would not be initially distributed to the public through a retailer, but that the Reserve Banks would distribute the presidential \$1 coins to the public through depository institutions. The Reserve Banks also changed the timing of distribution to make the coins available to depository institutions prior to the release date, rather than paying the coins to depository institutions, coin terminals, and armored carriers on the release date. Presidential \$1 coins are available in smaller increments than the Sacagawea \$1 coins (1,000 for presidential \$1 coins versus 2,000 for the Sacagawea) and in two forms of packaging (rolled and loose versus loose only). On balance, the Federal Reserve and the United States Mint used lessons learned from their experience with the Sacagawea \$1 coins, and other commemorative circulating coin programs, to make significant changes for the rollout and distribution of the presidential \$1 coin.

¹⁰ Each roll and box is marked to indicate the presidential \$1 coin it contains.

¹¹ The Reserve Banks continue to offer the option of \$2,000 bags containing loose, previously circulated, mixed \$1 coins to customers that make a special request for these coins.

¹² Although the larger increments are more consistent with the Reserve Banks’ role of wholesale provider of cash services, the ordering exception was made to address specific stakeholder feedback.

Table 2
Major Differences Between the Distribution of the Sacagawea and Presidential \$ Coins

Sacagawea \$1 Coin	Presidential \$1 Coin
Initial public distribution by the United States Mint through a single large retailer before depository institutions received coins.	Initial public distribution by the Reserve Banks through depository institutions only.
Distributed only in \$2,000 bags.	Distributed in \$1,000 boxes containing \$25 rolls and \$2,000 bags of loose, unmixed coins (available by special request).
Available to depository institutions on/after the release date.	Available to depository institutions prior to the release date.
No special ordering period.	Available in unmixed quantities for a special six-week ordering period.

Technology Modifications

During 2006, the Reserve Banks developed and implemented modifications to their automated tools that depository institutions use to order coins. These modifications include changes to the phone ordering system (FedPhone) as well as to the Reserve Banks' internal cash automation platform. The Reserve Banks also implemented changes to their web-based ordering system (FedLine Web) to coincide with the order period for the release of the John Adams \$1 coin on May 17, 2007.

Communications

The Federal Reserve communicated extensively with stakeholders about the details of the Presidential \$1 Coin Program, including developing automated messages that depository institutions received when they ordered any coin denomination online or via telephone to remind them of the availability of the coins and the special ordering process. To date, the Federal Reserve has published eight articles in the Reserve Banks' financial services newsletter (*FedFlash*), informing readers about the new coin program and providing details about how to order the coins. The Reserve Banks also included notices in outgoing currency shipments, sent e-mails to 600 high-volume coin orderers, and posted information on the Federal Reserve's financial services website and the Reserve Banks' district websites. Additionally, the Federal Reserve worked with the United States Mint to establish stakeholder issue identification and resolution processes during the special ordering period for each new release.

V. George Washington \$1 Coins

The Federal Reserve used data from several sources to estimate demand for George Washington \$1 coins, including projections from the United States Mint's demand and acceptance study, demand for other commemorative circulating coin releases, and a Reserve Bank survey of depository institutions' demand.

United States Mint's Demand Estimate

The United States Mint commissioned Market Strategies, Incorporated (MSI) to conduct a study to estimate potential acceptance and demand for circulating and numismatic presidential \$1 coins. Through telephone interviews, online polls, and focus groups, MSI surveyed the general public, numismatic collectors, coin dealers, depository institutions, and selected businesses.

The study concluded that presidential \$1 coins would be more successful as collectibles than for transactional use, given the public's reported preference for the dollar bill. While the study did not estimate transactional demand, it estimated that those interested in collecting George Washington \$1 coins from circulation would require approximately 250 million coins.

Demand for Previous Commemorative Circulating Coin Releases

During the first year of the Sacagawea \$1 coin release in 2000, the Federal Reserve paid approximately 664 million of the coins into circulation, including over 100 million during one month. The Reserve Banks concluded, however, that demand for presidential \$1 coins could exceed that for Sacagawea coins, given that the United States Mint will issue four new designs of the presidential \$1 coins each year versus a single design for the Sacagawea.

The 50 State Quarters Program also may have increased some of the public's interest in collecting coins from circulation. Recognizing that the Congress modeled the Presidential \$1 Coin Program after the 50 State Quarters Program, the Federal Reserve researched historical demand for individual state quarter designs. Because transactional demand for quarters far exceeds transactional demand for \$1 coins, the Federal Reserve and the United States Mint attempted to distinguish *collector* demand for the state quarters from *transactional* demand, as a possible indicator of collector demand for presidential \$1 coins. The Federal Reserve estimated current collector demand for the state quarters at approximately 230 million pieces per release.¹³

Reserve Banks' Demand Survey and Order

The Reserve Banks distributed surveys to about 600 depository institutions throughout the country to estimate demand and to determine the appropriate geographic distribution of presidential \$1 coin demand. Approximately 82 percent of the depository institutions that received surveys responded. Based on local survey responses and extrapolation for the remaining

¹³ Total demand for state quarters has ranged from approximately 350 to 500 million pieces per design. The Federal Reserve analyzed demand for quarters prior to 1999 (before the 50 State Quarters Program began), applied a conservative projected growth rate to estimate transactional demand, and subtracted this projected transactional demand from total demand over the same period to estimate collector demand.

population of depository institutions, the Reserve Banks developed preliminary orders that were adjusted to reflect national trends and to account for full- and half-load shipping requirements.¹⁴ The final forecast suggested the need for approximately 205 million George Washington \$1 coins.

Orders from the United States Mint

The three sources of demand estimates suggested that demand for George Washington \$1 coins would range from approximately 200 to 250 million pieces. To avoid the risk of a shortfall given historical variations in regional demand and the lack of a clear precedent, every Reserve Bank office and coin terminal ordered a small amount of additional inventory, resulting in a total order of 303 million of the coins from the United States Mint.

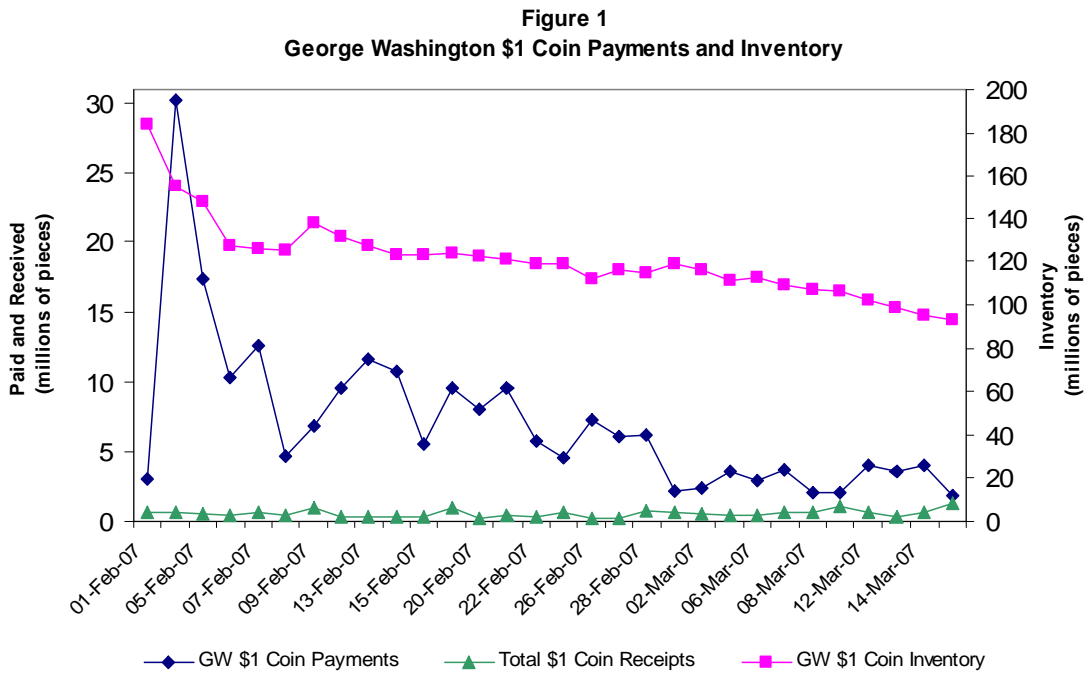
Payments to Circulation

On January 2, 2007, the United States Mint began shipping George Washington \$1 coins to the Reserve Banks. The Reserve Banks paid out approximately 212 million George Washington \$1 coins from February 1 through March 15, satisfying all depository institution demand.

Before the start of the Presidential \$1 Coin Program, in 2006, the average daily \$1 coin gross payment to circulation was about \$800 thousand.¹⁵ During the six-week ordering period, the Reserve Banks paid out an average of about 7 million George Washington \$1 coins each day. As shown in figure 1, however, by the end of the special ordering period, payments to circulation had decreased to about \$1.8 million per day. About 75 percent, or 160 million, of the total payments occurred during the first three weeks of the special ordering period.

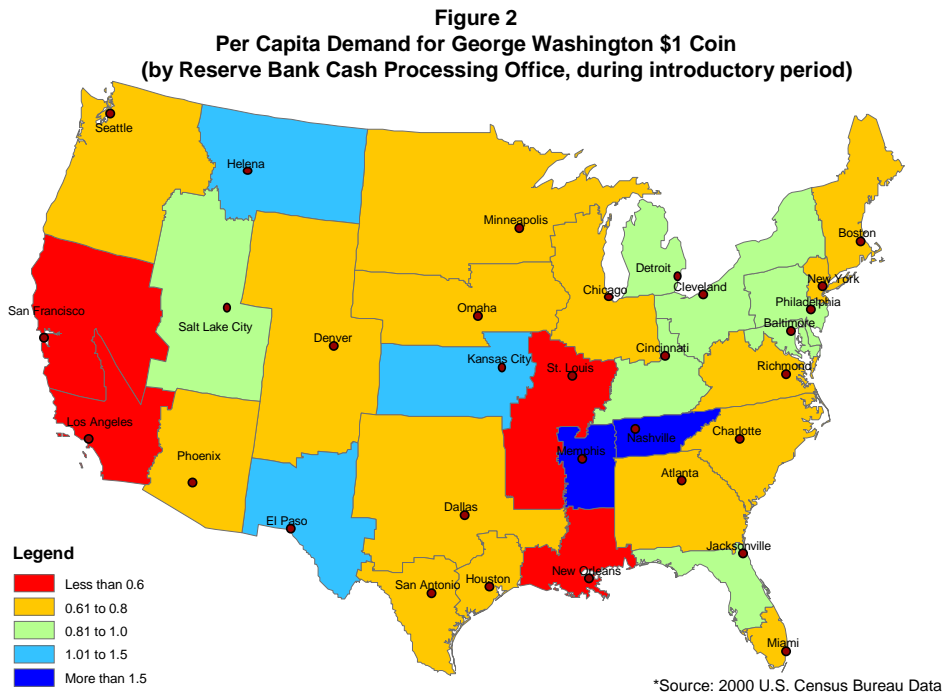
¹⁴ A full-load shipment consists of 140,000 coins per skid and 16 skids per shipment for a total per shipment value of \$2.24 million.

¹⁵ For 2006, the Federal Reserve paid out about \$6 million per month net of receipts of \$1 coins, which is about \$230 thousand per day net payout.



Note: The inventory on February 1, which was the beginning of the special ordering period, was about 185 million presidential \$1 coins. The United States Mint continued shipping \$1 coins to the Reserve Banks during the special ordering period until all 303 million that had been ordered were received by the Reserve Banks.

Figure 2 shows the geographical distribution of George Washington \$1 coin payments to circulation, per capita, by Reserve Bank office, from February 1 through March 15.



Reserve Bank Inventories

Figure 3 provides a longer-term perspective on the Reserve Banks' payments, receipts, and inventories of \$1 coins.¹⁶ Experience shows that \$1 coin demand increased temporarily in 2000 and 2001 during the initial issuance of the Sacagawea \$1 coin, but net payments returned to historical levels after the introductory period. As demand decreases for commemorative circulating coins, the excess \$1 coins are returned to the Reserve Banks.

As of December 31, 2006, Reserve Banks held about \$70 million in dollar coins, while on March 31, 2007, Reserve Banks held about \$165 million in total dollar coins, enough \$1 coins to meet recent transactional demand for \$1 coins for about 27 months. Excess inventories increase the costs associated with coin inventory management. Although still early in the program, there is no evidence to date that the public's interest in the presidential \$1 coins for transactions has materially increased, or that its preference for the \$1 note has diminished. If the public does not increase its usage of \$1 coins for daily transactions, the rotating design requirement of the Act will further exacerbate increasing inventories at the Reserve Banks.¹⁷

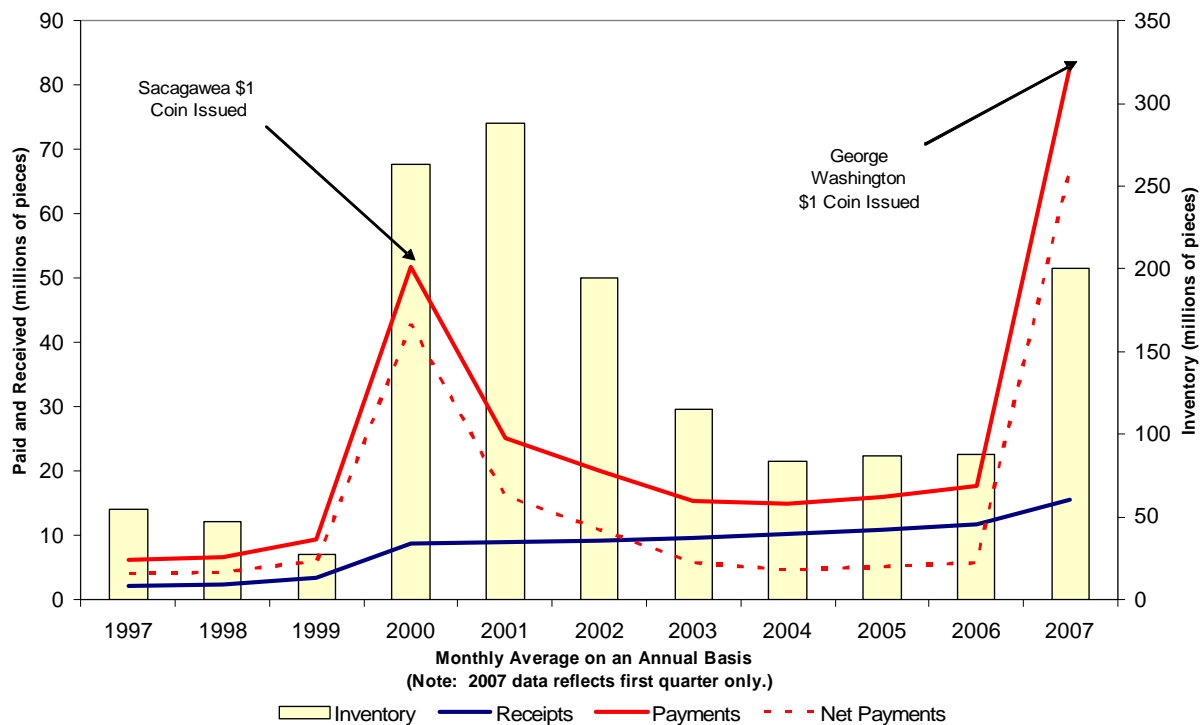
If the Reserve Banks were to order 200 million of every new presidential \$1 coin release and the depository institutions return excess presidential \$1 coins to the Reserve Banks at the same rate they returned the Sacagawea \$1 coins, the Federal Reserve would exhaust its coin inventory capacity within four years.¹⁸ Accordingly, the Reserve Banks will monitor demand carefully and will adjust future \$1 coin orders, as necessary, to reflect expected demand and address potential future shortages in storage space at Reserve Bank offices and offsite terminals.

¹⁶ Dollar coin receipts and inventories include all \$1 coin designs.

¹⁷ For example, Reserve Bank inventories of \$1 coins increased more than 135 percent from about \$70 million as of December 31, 2006, to about \$165 million as of March 31, 2007.

¹⁸ An order of 200 million would be consistent with the quantity of George Washington \$1 coins paid to circulation by the Reserve Banks and the quantity of John Adams \$1 coins ordered from the United States Mint.

Figure 3
Federal Reserve \$1 Coin Activity



Customer Feedback from the George Washington Release

During recent meetings with banking associations, community banks, and large depository institutions, participants offered the following feedback regarding the release of the George Washington \$1 coin:

Demand

- Demand for the George Washington \$1 coins comes almost exclusively from individuals, particularly coin collectors.
- Commercial customers (such as retailers and other businesses) have shown little interest to date.

Ordering Process

- The pre-release ordering process enabled depository institutions to begin providing the coins to the public on the release date.
- Depository institutions requested that the Federal Reserve maintain the advance ordering process for future releases.

Packaging

- Depository institutions prefer the United States Mint’s pre-packaged rolls of coins to respond more quickly to their customer demand. Depository institutions provided the coins to customers in the form their customers requested—either full rolls or

- individual coins.
- The Federal Reserve should communicate more broadly that depository institutions may order unmixed coins in \$2,000 bags, as well as in \$1,000 boxes.

Materials

- Depository institutions that received presidential \$1 coin promotional material from the United States Mint found the information useful; however, some institutions that ordered the materials prior to February 15, 2007, indicated that they did not receive them before the end of the introductory period on March 15.

The Federal Reserve will use this feedback to develop plans with the United States Mint for additional coin user group forums and draft communications regarding future releases of presidential \$1 coins. In response to high demand for its free informational materials, the United States Mint has printed additional supplies.

VI. John Adams \$1 Coins

The second coin in the Presidential \$1 Coin Program, the John Adams \$1 coin, was released to the public on May 17, 2007. As with the George Washington \$1 coin, depository institutions could begin ordering unmixed supplies of the John Adams \$1 coins from the Reserve Banks two weeks before the public release in order to facilitate timely distribution.

The Federal Reserve used payment and inventory data from the George Washington \$1 coin release, as well as a Reserve Bank survey of depository institutions, to estimate demand for the John Adams \$1 coin. The Reserve Banks ordered approximately 200 million John Adams \$1 coins from the Mint, and depository institutions ordered about 158 million of the coins from the Reserve Banks as of June 14, 2007, the end of the introductory period. As shown in figure 4, during the six-week ordering period, the Reserve Banks paid out an average of about 5 million John Adams \$1 coins each day, compared with about 7 million George Washington \$1 coins during the comparable release period.

Figure 4
John Adams \$1 Coin Payments and Inventory

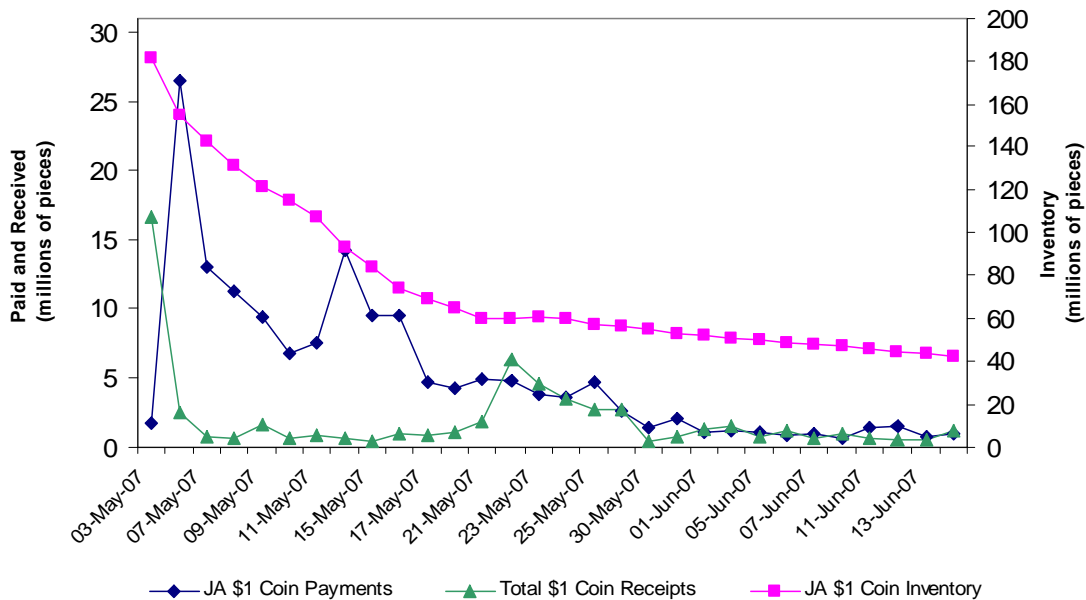


Figure 4 also shows that the Reserve Banks ended the special ordering period with approximately \$42 million in John Adams \$1 coin inventory. These supplies brought total Reserve Bank inventories of \$1 coins to \$211 million as of June 15, 2007.

VII. Federal Entities Compliance

Board and United States Mint Leadership

The Act requires federal entities, entities operating on federal premises, and certain federal grant recipients to ensure that, by January 1, 2008, any business operations they conduct that involve coins or currency will (1) be fully capable of accepting and dispensing \$1 coins in connection with such operations and (2) display signs and notices denoting such capability on the premises where coins or currency are accepted or dispensed, including on each vending machine.¹⁹

In October 2006, the Board and the United States Mint notified 88 federal entities of the Act’s requirements, provided commonly asked questions and answers, and included a brochure about the Presidential \$1 Coin Program. The Office of Management and Budget staff suggested that we ask the entities covered by the Act to provide us with additional information. In two follow-up letters to the federal entities, we asked for (1) the status of their progress in meeting the requirements of the Act, (2) any information regarding barriers to meeting the requirements, and (3) a contact name and address.

To date, we have received 61 responses from federal entities. Sixteen (26 percent) of the responding federal entities reported that they do not have business operations involving currency or coin. Most are independent agencies that reported they do not have vending machines or other cash businesses on their premises. As shown in table 3, nearly all of the other responding agencies indicated that they will be capable of accepting and dispensing \$1 coins in their business operations and will display signs noting this capability by January 1, 2008.

**Table 3
Federal Entity Compliance**

<u>Responses</u>	Will be fully capable of accepting and dispensing \$1 coins by 1/1/08 (percent)	Will display signage noting such capability by 1/1/08 (percent)
Yes	89	93
No	4	2
Still evaluating	7	5
Note: Based on the 45 responses from federal entities that have business operations involving currency or coin.		

¹⁹ 31 USC 5112(p)(1).

Leading by Example

The Board has worked with the vendors at its headquarters site to make them aware of and to assist them in complying with the Act's requirements. The Board's vending machine contractor has converted all machines to accept \$1 coins, and the Board purchased change machines that dispense \$1 coins in the vending machine areas. In addition, the Board informed its cafeteria management and the Federal Reserve Board Federal Credit Union of the Act's requirements. All business operations at the Board are fully capable of accepting and dispensing \$1 coins and display signage noting such capability.

The Reserve Banks have submitted plans describing their efforts to accept and make available \$1 coins, including information about the type of cash transactions conducted on their premises, the transaction devices used, any necessary modifications to the devices, modification target dates, vendor names and contacts, any necessary employee training, training completion dates, installation of signs, and overall completion dates. The Reserve Banks expect to be in full compliance with the requirements of the Act by January 2008.

VIII. Remaining Obstacles to the Improved Circulation of \$1 Coins

The Act requires the Board to report to the Congress the remaining obstacles to the efficient and timely circulation of \$1 coins. The Federal Reserve and the United States Mint have worked together to eliminate many distribution, ordering, and packaging obstacles that may have hindered the past distribution of \$1 coins. The feedback that we received from our customers and other coin users highlighted some of the remaining barriers to the use of the presidential \$1 coin for routine commercial transactions. The United States Mint's demand and acceptance study provided statistical evidence in line with the qualitative feedback the Federal Reserve received from depository institution customers and other stakeholders.

The United States Mint's study and stakeholder feedback identified as the most significant barrier the co-circulation of the presidential \$1 coin with the one-dollar bill. This is consistent with a 2002 Government Accountability Office study, which concluded that the continuing circulation of the dollar bill is the biggest barrier to the widespread use of the dollar coin.²⁰ The American public has indicated in surveys and in action that it prefers dollar bills to dollar coins.

Consistent with recent (and past) studies and stakeholder feedback, there is no evidence to date that the public's interest in the presidential \$1 coins for transactions has materially increased, or that its preference for the \$1 note has diminished. As the program moves forward, however, the Federal Reserve will continue to explore other opportunities to address remaining barriers to circulation, where possible, and to meet with coin users to educate them about the program and gather feedback that the Board can use to refine the program further. The Federal Reserve also will continue working with the United States Mint to conduct outreach to increase general awareness of the coins and their features.

²⁰ "New Dollar Coin: Marketing Campaign Raised Public Awareness but not Widespread Use" (GAO-02-896), September 2002. The GAO found that other countries have successfully introduced a similar denomination coin only by phasing out the note of the same value.

IX. Recommendation for Legislative Action

The Act states that, beginning January 1, 2007, and ending upon termination of the program, the Secretary shall mint and issue annually such “Sacagawea-design” \$1 coins for circulation in quantities of no less than one-third of the total \$1 coins minted and issued under the Presidential \$1 Coin Program.²¹

There is no evidence to date that the Presidential \$1 Coin Program will stimulate increased demand for \$1 coins as a broad-based medium of exchange. Given that the Reserve Banks had sufficient inventories of \$1 coins to meet market demand before the start of the Presidential \$1 Coin Program and that supplies have increased further after the release of the George Washington and John Adams \$1 coins, the Reserve Banks will not order more Sacagawea \$1 coins unless needed to meet demand.

If the Presidential \$1 Coin Program does not sufficiently stimulate transactional demand for \$1 coins, the Act’s requirement that the Treasury mint and issue Sacagawea \$1 coins will result in escalating production and storage costs to the taxpayer without any offsetting benefits.

The Act requires the Board to submit an annual report to the Congress that contains, among other requirements, such recommendations for legislative action the Board may determine to be appropriate.²² Accordingly, the Federal Reserve recommends that the Congress substitute section 5112(n)(1)(B) of title 31, United States Code, in its entirety, with the following:

“(B) CONTINUITY PROVISIONS.—Notwithstanding subparagraph (A), the Secretary shall continue to mint and issue as needed the ‘Sacagawea-design’ \$1 coins to meet public demand.”²³

²¹ 31 USC 5112(n)(1)(B)(ii).

²² 31 USC 5112 (p) (3)(B)(iii).

²³ The Board recognizes that the Congress is considering legislation (H.R. 2358 and S. 585) that would reduce the Sacagawea-production requirement in the Presidential \$1 Coin Act. Each of these bills, however, would maintain a quantitative requirement as to the volume of Sacagawea \$1 coins that the Secretary shall mint and issue. While reducing the quantitative requirement would be a positive step, the Board remains concerned with any requirement that would necessitate production of coins without regard to demand for the coins.