



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DATE: December 16, 2009

TO: Board of Governors

Via: Governor Kevin M. Warsh
Chairman, Committee on Board Affairs

FROM: Staff¹

SUBJECT: 2010 Budget²

Action Requested

Staff requests that the Board approve:

1. A \$425.0 million operating budget for 2010, which includes 2,190 total positions. The budget will fund an increase in the merit-pay pool for Board staff and officers of 2.5 percent.
2. A \$23.6 million capital budget for 2010.

Summary

The Board's current strategic plan is a four-year plan covering the 2008-11 period. The plan will need to be reviewed and revised, as appropriate, should Congress act on the regulatory restructuring proposals and the President signs the bills into law. After our discussions earlier this year with the division directors and the Committee on Board Affairs, we decided to proceed with developing a budget based on the current strategic plan, incorporating any material changes in the Board's activities since the plan was approved.

The Staff Planning Group (SPG) reviewed budget requests submitted by offices and divisions, to include proposed initiatives and potential savings.³ The SPG co-chairs subsequently met with Governor Warsh, each director, and the responsible oversight Governor to further review the submissions. Although each office and division initially developed a two-year budget covering

¹ Stephen Malphrus, David Stockton, H. Fay Peters, Don Spicer, William Mitchell, and Chris Fields.

² The requests in this memorandum do not include the Office of Inspector General (OIG). The OIG's budget is submitted separately from the Board's budget, consistent with the independence of the office.

³ Steve Malphrus and Dave Stockton co-chaired the SPG. The other members of the SPG were Ken Buckley, Lynn Fox, Jennifer Johnson, Maureen Hannan, Maryann Hunter, Sharon Mowry, Rose Pianalto, Bill Spaniel, Don Spicer, Sandy Struckmeyer, and Kit Wheatley.

2010-11, the decision was made during the final review process to proceed with requesting approval of a one-year budget for 2010.

The final budget requests included in this memorandum represent senior management's collective judgment of the resources necessary to continue the Board's current operations and fund only the highest priority new initiatives. The operating budget (including new initiatives and proposed savings) represents a 9.4 percent increase over the estimated 2009 expenses. The Board's budget for 2010 provides funds totaling \$10.2 million for the Survey of Consumer Finances. This survey, which gathers information on the balance sheet, pension, income, and demographic characteristics of U.S. families, as well as information on the use of financial institutions, will improve the quality of economic information produced by the Board. If this survey, which occurs every three years, is excluded from the budget figures, the 2010 operating budget represents an 8.2 percent increase over the estimated 2009 expenses.

Current Services Budget

The proposed operating budget of \$425.0 million includes \$420.0 million to fund the Board's ongoing operations (the current services budget). The budget reflects growth in personnel service expenses as well as increased costs for goods and services. For personnel services, the primary driver underlying the increased expenses is the full-year effect of the 113 positions added during the 2008-09 budget period and 12 positions for the Division of Information Technology that were approved at the mid-biennium but deferred until 2010.⁴ The Board added these positions in response to increased workload demands, driven in large part by the financial crisis and compliance-related mandates such as the Federal Information Security Management Act, Section 508 requirements for the Board's websites, and achieving compliance with Sarbanes-Oxley. Almost half of the position increases occurred during the mid-biennium process earlier this year. As staff noted in the mid-biennium request, workload for some staff members had reached unsustainable levels and thus the growth in staff levels.

Other personnel service increases in the 2010 budget request include funding for (1) a 2.5 percent merit-pay pool, (2) potential promotions and other reclassifications, and (3) the full-year effect of enhancements to the Board's approved benefits programs (e.g., the additional thrift savings match).⁵ Increases to goods and services include increased costs for the Survey of Consumer Finances, additional rent expenses related to leased office space, increased costs of the Reserve Bank external audit, and an adjustment for general price increases.⁶ Attachment 1 shows the proposed operating budget by office and division; attachment 2 shows the operating budget by major expense account.

⁴ Approximately \$16.1 million was added to the 2008-09 budget to fund 59 of the 113 positions. The remaining positions were self-funded during 2008-09 by the office or division.

⁵ The merit-pay pool will fund merit increases in the aggregate. Individual merit increases will depend upon the employee's performance rating for the period. The largest group of employees will receive a 2.0 percent increase.

⁶ Staff used the inflation assumption in the federal government's budget of 1.6 percent for 2010.

New Initiatives and Proposed Savings

During the budget formulation process, the SPG reviewed and discussed almost 100 initiatives submitted by the Board's offices and divisions. The initiatives included technology projects, staffing requests, and other requirements stemming from priorities in the current strategic plan, compliance-related activities, mandates included in recent legislation, and other Board goals such as the commitment to increase transparency. The SPG also reviewed and discussed proposed savings, such as staffing reductions and elimination of the cafeteria food subsidy.

Following the SPG discussions, the SPG co-chairs met with each director to review the SPG recommendations and to identify potential additional reductions in the divisions' budgets. Governor Warsh also met with each director and his or her oversight Governor, along with the SPG co-chairs, to review the budget requests as well as discuss priorities for the coming year. Based on these meetings, the directors were able to identify additional opportunities to reduce proposed initiatives by delaying planned work or implementing alternative solutions to meet workload requirements. As a result of SPG and oversight Governor reviews, the proposed 2010 budget includes \$8.7 million in new initiatives, partly offset by \$3.7 million in proposed savings.

Positions

For the 2010 budget period, staffing requests resulted in a net increase of 24 positions. This increase brings total authorized positions to 2,190 and represents a 1.1 percent increase over current total authorized positions. The total for authorized positions at the start of 2010 is 7.3 percent higher than the total for authorized positions at the start of the 2008-09 budget period; the increase reflects the growth in positions during the prior budget period, as discussed earlier in this memo. Attachment 3 shows the current and requested positions by office and division.

Almost half of the increase in positions is occurring in the research divisions and will help the divisions more closely integrate analysis and address the macro and micro prudential dimensions of financial stability. The Division of Research and Statistics is requesting six positions: two positions to support enhanced quantitative surveillance, two positions to produce horizontal assessments of particular risks or activities in banking organizations, and two positions to more efficiently and effectively manage increased quantities of financial data. The Division of Monetary Affairs is requesting seven positions: one position related to enhanced quantitative surveillance; one position related to enhanced horizontal reviews; four additional official and staff support for critical division functions such as policy analysis; and one research systems analyst to provide backup for critical support operations. The Office of Board Members is requesting two positions: one position represents a reallocation of Information Technology user charge funds and the second position is related to the increased transparency demands on the Board. The Legal Division is requesting six positions (five new midlevel attorney positions and one paralegal position) to deal with an increasing workload related to new legislative and regulatory initiatives, reviews of proposed purchasers of failed banks, and a potentially high volume of requests pursuant to the Freedom of Information Act (FOIA). Finally, the Division of Consumer and Community Affairs is requesting six positions: five positions to conduct

consumer compliance examinations of, and investigate consumer complaints against, nonbank subsidiaries of bank holding companies and one position related to testing consumer protection disclosures. These requests are partially offset by proposed reductions in the Management Division, to be achieved through a reallocation of law enforcement personnel.

Capital Budget

The proposed capital budget of \$23.6 million includes \$10.6 million for routine equipment replacements and renovations and \$13.0 million to fund specific initiatives. Attachment 4 summarizes the capital requests by office and division. Attachment 5 provides additional resource information associated with multiyear capital projects, such as the data center renovation and enhancements to perimeter security at the New York Avenue facility. The table reflects funds approved in prior budget cycles, estimated total expenses, and the remaining requirements included in the 2010 capital budget request. Capital initiatives include \$0.7 million for software; \$1.3 million to replace windows in the Eccles Building; \$5.0 million to reconfigure space at New York Avenue; and \$6.0 million to complete the design work for the Martin Building renovation and the visitors center/conference center. The Management Division also plans to begin work during 2010 on warehouse space requirements, although additional funding will not be required until 2011.⁷

Budget Risks

Risks to the budget arise from the continued pressures on staff to meet the demands generated by the financial crisis and to complete the backlog of work resulting from the focus on those demands, including the high levels of review by the Government Accountability Office and the Special Inspector General for the Troubled Asset Relief Program. Passage of proposed legislation related to regulatory restructuring could result in significant changes to the Board's responsibilities for, and processes related to, bank supervision and regulation as well as consumer protection. These changes will, in turn, necessitate a revision to the strategic plan and budgetary requirements. The Board's continued commitment to transparency and the potential increase in the number and complexity of FOIA requests for information not disclosed under the transparency initiative may require additional investments in information systems to enhance the Board's communication and document management capabilities. Finally, staffing levels (including positions in the Office of Inspector General) may require additional funding to further reconfigure existing space or to secure additional leased space.

Attachments

⁷ The warehouse provides space for the receipt, processing, and storage of publications, furniture, and spare equipment.

2010 Operating Budget by Office, Division, or Special Account

\$ in millions

Division, Office, or Special Account	Current Services	New Initiatives	Savings	Total Operating Budget
Board Members	\$ 16.5	\$ 0.8	\$ -	\$ 17.3
Staff Director	11.5	-	(0.1)	11.4
Secretary	7.8	0.3	-	8.1
Research & Statistics	52.3	0.5	(0.1)	52.7
International Finance	19.9	-	-	19.9
Monetary Affairs	20.8	2.4	-	23.2
Banking Supervision & Regulation	61.4	0.6	-	62.0
Consumer & Community Affairs	24.1	2.1	(0.1)	26.1
Legal	16.8	0.7	-	17.5
Reserve Bank Operations & Payment Systems	33.2	-	-	33.2
Information Technology	60.6	1.2	(0.1)	61.7
Management	93.2	0.1	(3.3)	90.0
Data Processing Income	(28.9)	-	-	(28.9)
Residual Retirement ¹	9.9	-	-	9.9
Special Projects ²	10.7	-	-	10.7
Extraordinary Items ³	10.2	-	-	10.2
Total, Board Operations	\$ 420.0	\$ 8.7	\$ (3.7)	\$ 425.0

¹ Residual Retirement includes actuarially estimated costs for pension plans, postretirement, and postemployment benefits, as well as costs for workers compensation, unemployment, and benefit plan administration.

² Special Projects includes transportation subsidy, relocation expenses, accrued annual leave, and academic assistance.

³ Extraordinary Items includes amounts budgeted for the Survey of Consumer Finances.

2010 Operating Budget by Major Expense Account

\$ in millions

Account	Current Services	New Initiatives	Savings	Total Operating Budget
Salaries	249.7	\$ 2.9	\$ (0.1)	252.5
Retirement	33.9	0.3	-	34.2
Insurance ¹	22.5	0.1	-	22.6
Subtotal, Salaries & Benefits	\$ 306.1	\$ 3.3	\$ (0.1)	\$ 309.3
Travel	9.8	-	(0.1)	9.7
Postage & Shipping	0.5	-	-	0.5
Telecommunications	4.5	-	(0.1)	4.4
Printing & Binding	1.5	-	-	1.5
Publications	0.5	-	-	0.5
Stationery & Supplies	1.5	-	-	1.5
Software	8.6	-	-	8.6
Furniture & Equipment	5.5	-	-	5.5
Rentals	7.5	-	(0.1)	7.4
Books & Subscriptions	1.0	-	-	1.0
Utilities	4.0	-	-	4.0
Repairs & Alterations	2.0	-	-	2.0
Repairs & Maintenance	1.6	-	-	1.6
ARC Expense/Research & Statistics	0.8	-	-	0.8
ARC Income/Research & Statistics	(0.8)	-	-	(0.8)
Contingency Processing Center	1.3	-	-	1.3
Contractual Professional Services ²	51.1	1.7	(3.3)	49.5
Interest Expense	-	-	-	-
Tuition	3.9	-	-	3.9
Subsidies & Contributions	1.1	-	-	1.1
All Other	4.2	0.2	-	4.4
Depreciation	15.8	-	-	15.8
Income	(8.4)	-	-	(8.4)
IT Support Costs	25.3	3.5	-	28.8
IT Allocated	(28.9)	-	-	(28.9)
Subtotal, Goods & Services	\$ 113.9	\$ 5.4	\$ (3.6)	\$ 115.7
Total, Board Operations	\$ 420.0	\$ 8.7	\$ (3.7)	\$ 425.0

¹ The insurance account includes employer-paid portions for retirement, thrift, medical, and other insurance plans.

² Contractual Professional Services includes amounts budgeted for the Survey of Consumer Finances.

Positions by Office or Division¹

Division, Office, or Special Account	Positions as of 1/1/2008	Positions as of 12/12/2009	Positions Requested		
			Initiatives	Savings	Total 1/1/2010
Board Members	81	86	2	-	88
Staff Director	48	48	-	-	48
Secretary	50	51	-	-	51
Research & Statistics	285	290	6	-	296
International Finance	115	115	-	-	115
Monetary Affairs	81	88	7	-	95
Banking Supervision & Regulation	253	283	-	-	283
Consumer & Community Affairs	105	114	6	-	120
Legal	80	80	6	-	86
Reserve Bank Operations & Payment Systems	138	138	-	-	138
Information Technology ²	288	323	-	-	323
Management ³	456	489	-	(3)	486
Subtotal	1,980	2,105	27	(3)	2,129
Concern Program - Management Division ⁴	30	31	-	-	31
Reimbursable IT Support to Other Agencies	31	30	-	-	30
Total, Board Operations	2,041	2,166	27	(3)	2,190

¹ Interns are not included in the numbers for positions.

² Information Technology positions as of 12/12/2009 include 12 positions approved at the mid-biennium but delayed until 2010.

³ Total positions for the Management Division as of 12/12/2009, include 163 law enforcement personnel.

⁴ Includes the cooperative education, worker trainee, and student aide programs that assist offices and divisions Boardwide.

2010 Capital Budget by Office or Division

\$ in millions

Division, Office, or Special Account	2010		
	Current Services	Initiatives	Total
Board Members	\$ -	\$ -	\$ -
Staff Director	0.3	-	0.3
Secretary	-	-	-
Research & Statistics	0.3	-	0.3
International Finance	-	-	-
Monetary Affairs	-	-	-
Banking Supervision & Regulation	0.8	-	0.8
Consumer & Community Affairs	-	0.6	0.6
Legal	-	-	-
Reserve Bank Operations & Payment Systems	-	-	-
Information Technology	1.5	0.1	1.6
Management--Single Year	4.0		4.0
Management--Multiyear	3.7	12.3	16.0
Total, Board Capital	\$ 10.6	\$ 13.0	\$ 23.6

Multiyear Capital Projects

\$ in millions

Multiyear Projects	Approved 2008-09	Capital Expenditures to Date	Balance Remaining	Additional Funds Requested	Total Expected Project Cost
Current Services:					
Personnel Records Automation (eOPF)	\$ 0.4	\$ -	\$ 0.4	\$ 0.1	\$ 0.5
Data center renovation	6.4	4.3	2.1	0.1	6.5
Eccles switchgear replacement	6.0	0.6	5.4	2.9	8.9
Martin north garage repairs	2.5	0.2	2.3	0.1	2.6
NYA perimeter security	0.9	-	0.9	0.3	1.2
NYA reconfiguration design	0.1	-	0.1	0.2	0.3
Total, Current Services	\$ 16.3	\$ 5.1	\$ 11.2	\$ 3.7	\$ 20.0
Initiatives:					
Visitors/conference center design	3.4	2.0	1.4	1.6	5.0
Martin renovation design	3.0	0.3	2.7	4.4	7.4
NYA reconfiguration construction	\$ -	\$ -	\$ -	\$ 5.0	\$ 5.0
Eccles window upgrades	-	-	-	1.3	1.3
Total, New Initiatives	\$ 6.4	\$ 2.3	\$ 4.1	\$ 12.3	\$ 18.7
Total, Multiyear Projects	\$ 22.7	\$ 7.4	\$ 15.3	\$ 16.0	\$ 38.7