Board of Governors of the Federal Reserve System

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

June 2008

2008 Annual Report to the Congress on the Presidential $1 Coin Program

Pursuant to section 104 of the Presidential $1 Coin Act of 2005 (Public Law 109-145), the Board of Governors of the Federal Reserve System is required to assess and submit a report to the Congress on the remaining obstacles to the efficient and timely circulation of $1 coins; to assess the extent to which the goals of consultations with industry representatives, the vending industry, and other coin-accepting organizations are being met; and to provide such recommendations for legislative action the Board may determine to be appropriate.

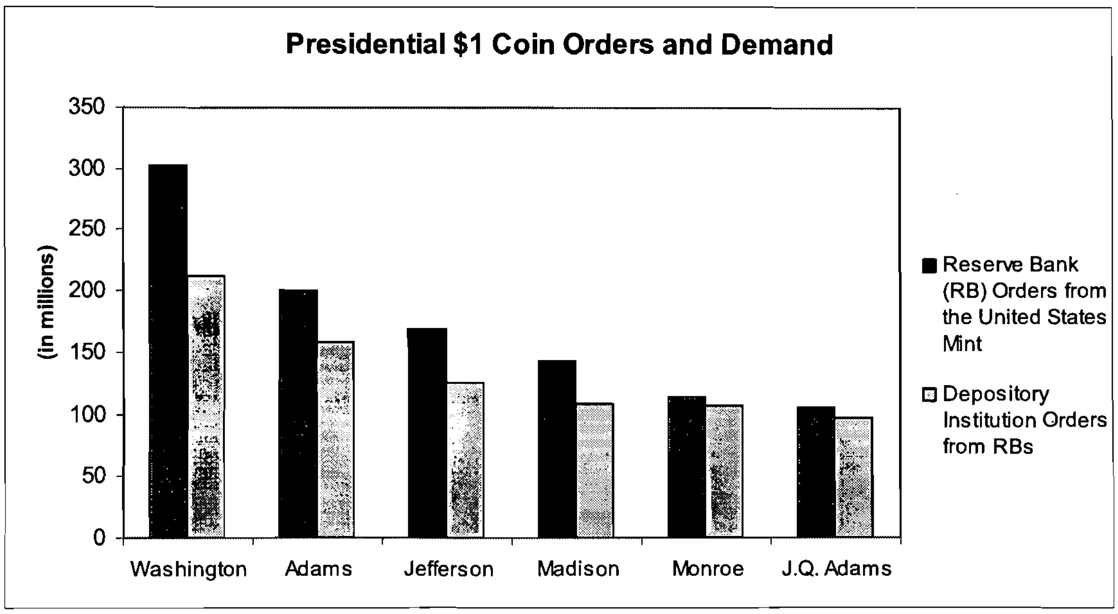
Since our 2007 annual report, the Federal Reserve Banks (the Reserve Banks) distributed more than 400 million Thomas Jefferson, James Madison, James Monroe, and John Quincy Adams Presidential $1 Coins, satisfying depository institution demand. To enable this successful distribution, the Federal Reserve worked with the United States Mint to refine the Presidential $1 Coin Program based on stakeholder input and experiences with the George Washington and John Adams Presidential $1 Coin releases. In July 2007, the Federal Reserve and the United States Mint co-hosted a coin users group forum to discuss distributional, operational, and outreach issues and challenges related to $1 coins. Forum participants included depository institutions, retail merchants, transit associations, federal entities, vending and coin equipment manufacturers, and armored carrier companies. The Federal Reserve also held additional meetings with depository institution and armored carrier representatives. We used the feedback from the stakeholder forum and meetings, as well as the lessons learned regarding demand trends from the first coin releases, to refine orders from the United States Mint and improve distribution processes, while continuing to make the coins widely available and in packaging useful for commerce.

In addition to complying with the Act's requirement to pay unmixed supplies "during an introductory period," the Reserve Banks added flexibility to the program by allowing depository institutions to order the most-recently released Presidential $1 Coin after the special ordering period for that coin has ended.[1] The Reserve Banks also held instructional conference calls and developed written materials for the armored carriers that operate Reserve Banks' off-site coin terminals and communicated with stakeholders more broadly about the additional ordering flexibility.

The Federal Reserve's experience with other circulating commemorative coins has shown that initial excess inventories can be reduced as long as there is significant, regular public transactional demand. For previous $1 coin programs, however, the Reserve Banks encountered large excess inventories for much longer periods because transactional demand was very low. The Presidential $1 Coin Program experience is consistent with previous $1 coin programs, demonstrating low transactional demand.

[1] The Reserve Banks allow depository institutions to order and receive new-design Presidential $1 Coins two weeks before the public release date to facilitate timely distribution. Pre-staging inventory with these entities allows the $1 coins to be 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 James Monroe Presidential $1 Coins began on January 31 and ended on March 13.

Improved forecasting, understanding of demand, and inventory management allowed the Reserve Banks to reduce their orders from the United States Mint for each new Presidential $1 Coin while continuing to meet depository institution demand. Out of concern for potential vault storage limitations, the Reserve Banks studied detailed payment and inventory data for the first Presidential $1 Coin releases at the Reserve Bank offices and off-site coin terminals, supplemented these data with feedback from depository institutions about expected demand, and developed better forecasts for each successive release. The Reserve Banks then actively managed inventories throughout the special ordering period for each coin, relocating coins as necessary to meet demand. The chart illustrates the Reserve Banks' success since the first release in aligning Presidential $1 Coin orders with depository institution demand.



As the Presidential $1 Coin Program progresses, the Federal Reserve will continue to monitor demand closely so it can manage inventories effectively. Excess Presidential $1 Coins remain as inventory at the Reserve Banks and their off-site coin terminals. Despite our successes in reducing orders from the United States Mint for each new release of the Presidential $1 Coin, previous $1 coin program supplies, plus the excess $1 coins returned by depository institutions to the Reserve Banks, brought total Reserve Bank inventories of all $1 coins to $467 million as of May 31, 2008, or about $400 million more than the Reserve Banks held before the start of the program. Current supplies represent enough $1 coins for the Reserve Banks to meet recent transactional demand for $1 coins for more than six years.

The Board also continued to work with the United States Mint to notify federal entities of their requirements under the Act. The efforts included sending a letter to those entities that did not respond to either of two letters sent in 2007.[2] To date, nearly all of the respondents have indicated that they comply with the Act's requirements or do not have business operations involving coin or currency. We will continue to remind federal entities of their obligations under the Act.

Our 2007 annual report to the Congress included a recommendation for legislative action regarding the "Sacagawea design" $1 coin provision in the Act. The Congress reduced the Sacagawea production requirement in the Presidential $1 Coin Act with the enactment of the Native American $1 Coin Act (Public Law 110-82). The revised Presidential $1 Coin Act, however, maintains a quantitative requirement for the volume of Sacagawea design $1 coins that the Secretary of the Treasury shall mint and issue. There is no evidence to date that the Presidential $1 Coin Program will stimulate demand for $1 coins as a broad-based medium of exchange. The Board remains concerned about any requirement that requires production of coins without regard to actual public demand.

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[2] 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. At the time of this letter, we have received responses from 83 of the 89 federal entities that we have contacted.