Annual Report: Budget Review

Board of Governors of the Federal Reserve System

2004

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Contents

Introduction

The Federal Reserve System consists of the Board of Governors in Washington, D.C., the twelve Federal Reserve Banks with their twenty-five Branches distributed throughout the nation, the Federal Open Market Committee (FOMC), and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council. The System was created in 1913 by the Congress to establish a safe and flexible monetary and banking system. Over the years, the Congress has given the Federal Reserve more authority and responsibility for achieving broad national economic and financial objectives.

As the nation's central bank, the Federal Reserve has many, varied responsibilities: It acts to ensure that the nation's economy grows at a pace consistent with price stability; it serves as the nation's lender of last resort, with responsibility for forestalling national liquidity crises; and it is involved in bank supervision and regulation, with responsibilities for bank holding companies, financial holding companies (created under the Gramm-Leach-Bliley Act, enacted in November 1999), state-chartered banks that are members of the Federal Reserve System, the foreign activities of U.S. banks, and the U.S. activities of foreign banks. The Federal Reserve also administers the nation's financial consumer protection laws.

The Federal Reserve System plays a major role in the nation's payment mechanism. The Reserve Banks distribute currency and coin; process Fedwire, automated clearinghouse, and securities transfers; and process checks. In addition, the Federal Reserve Banks serve as the fiscal agents of the United States and provide a variety of financial services for the Treasury, other government agencies, and other fiscal principals. For a fuller discussion of the Federal Reserve's responsibilities, see the Board publication *The Federal Reserve System: Purposes and Functions.*

Summary of 2003 Income and Expenditures

In carrying out its responsibilities in 2003, the Federal Reserve System incurred an estimated $1.7 billion in net operating expenses. Total spending of an estimated $2.9 billion was offset by an estimated $1.2 billion in revenue from priced services, claims for reimbursements, and other income.

The major source of Federal Reserve income is earnings from the portfolio of U.S. government securities in the System Open Market Account, estimated at $22.6 billion in 2003. Earnings in excess of expenses, dividends, and surplus are transferred to the U.S. Treasury—in 2003 an estimated $22.0 billion. (These earnings are treated as receipts in the U.S. budget accounting system and as anticipated earnings projected by the Office of Management and Budget in the U.S. budget.)

Budget Processes

Beginning with the 1998–99 budget, the Board of Governors has operated on a two-year budget cycle and a four-year planning cycle. This multiyear process allows the Board to define and implement long-term strategies across functional areas. Given their current business needs, the Federal Reserve Banks maintain an annual budget cycle. For more information on the budget processes, see appendix A.

Operational Areas

In 2003 the Federal Reserve System accounted for costs using the following categories—monetary and economic policy, supervision and regulation of financial institutions, services to financial institutions and the public, services to the U.S. Treasury and other government agencies, and System policy direction and oversight.

Monetary and Economic Policy

The monetary and economic policy operational area encompasses Federal Reserve actions to influence the availability and cost of money and credit in the nation's economy. In 2003, the FOMC held eight regularly scheduled meetings and adjusted the federal funds rate once.

A vast amount of banking and financial data flows through the Reserve Banks to the Board, where it is compiled and made available to the public. The research staffs at the Board and the Reserve Banks use these data, along with information collected by other public and private institutions, to assess the state of the economy and the relationships between the financial markets and economic activity. Staff members provide background information for the Board of Governors and for each meeting of the FOMC by preparing detailed economic and financial analyses and projections for the domestic economy and international markets. The Board and the FOMC use these analyses and projections in setting reserve requirements, setting the discount rate (which affects the cost of borrowing), and conducting open market operations. Staff members also conduct longer-run economic studies on regional, national, and international issues.

Supervision and Regulation

The Federal Reserve System plays a major role in the supervision and regulation of banks and bank holding companies. The Board of Governors adopts regulations to carry out statutory directives and establishes System supervisory and regulatory policies; the Reserve Banks conduct on-site examinations and inspections of state member banks and bank holding companies, review applications for mergers, acquisitions, and changes in control from banks and bank holding companies, and take formal supervisory actions. In 2003, the Federal Reserve conducted 581 examinations of state member banks (some of them jointly with state agencies) and 446 inspections and 3,141 risk assessments of bank holding companies; it acted on 2,668 international and domestic applications.

The Board also enforces state member banks' and certain foreign banking organizations' compliance with the federal laws protecting consumers in their use of credit and deposit products. Between July 1, 2002, and June 30, 2003, the System conducted 402 consumer compliance examinations, including 368 covering state member banks and 34 covering foreign banking organizations. Additionally, the System performed 313 Community Reinvestment Act examinations.

The Board's supervisory responsibilities also extend to the foreign operations of U.S. banks and, under the International Banking Act, to the U.S. operations of foreign banks. Beyond these activities, the Federal Reserve maintains continuous oversight of the banking industry to ensure the overall safety and soundness of the financial system. This broader responsibility is reflected in the System's presence in financial markets, through open market operations, and in the Federal Reserve's role as lender of last resort.

Services to Financial Institutions and the Public

The Federal Reserve System plays a central role in the nation's payment systems by ensuring that enough currency and coin are in circulation to meet the public's demand. The Bureau of Engraving and Printing prints currency and the U.S. Mint mints coin that the Reserve Banks distribute to the public through depository institutions. Reserve Banks also receive deposits of currency and coin from depository institutions, identify suspect currency that they forward to the U.S. Secret Service, and destroy currency that is unfit for circulation. In 2003, the Reserve Banks received approximately $596.9 billion in currency and $4.9 billion in coin from depository institutions, distributed approximately $633.4 billion in currency and $6.0 billion in coin, and destroyed $101.3 billion in unfit currency.

The Reserve Banks (along with their Branches and regional processing centers) also process checks for collection. In 2003, the Reserve Banks processed approximately 15.8 billion commercial checks for collection, with a total value of about $15.4 trillion.

The Federal Reserve also plays a central role in the nation's payment systems through its Fedwire Funds Service. Through this service, depository institutions can draw on their reserve or clearing balances at the Reserve Banks and transfer funds to other institutions that maintain accounts at the Reserve Banks. In 2003, Fedwire funds participants originated approximately 126 million Fedwire funds transfers, valued at about $437 trillion.

The Federal Reserve allows participants in private clearing arrangements to settle transactions through reserve or clearing account balances. The Reserve Banks' National Settlement Service provides settlement services to approximately 70 local and national private arrangements, including check clearinghouse associations, the automated clearinghouse network, and credit card processors. In 2003, the Reserve Banks processed over 442,700 settlement entries for these arrangements.

The Federal Reserve's ACH service allows depository institutions to send or receive payments electronically instead of by check. Institutions use the ACH service for credit and debit transactions. In 2003, the Reserve Banks processed approximately 6.5 billion ACH transactions, valued at about $16.8 trillion. Approximately 16.4 percent of the transactions were for the federal government; the rest were for commercial establishments.

Reserve Banks provide securities services for the handling of book-entry (computer-based) securities and the collection of physical interest coupons and miscellaneous items. The Fedwire Securities Service allows participants to electronically transfer to other participants securities issued by the Treasury, federal government agencies, and other approved entities. In 2003, Fedwire securities participants originated approximately 10 million transfers valued at about $268 trillion. The noncash collection service, through which maturing or called municipal coupons and bonds are presented for collection, processed about 280,100 transactions in 2003.

Services to the U.S. Treasury and Other Government Agencies

The Reserve Banks provide fiscal agency and depository services to the U.S. government. Through deposit accounts at Reserve Banks, the government issues checks, makes payments, and collects receipts. The Reserve Banks also process

Fedwire funds transfers and automated clearinghouse payments and provide the Treasury with daily statements of account activity. Reserve Banks provide claims for reimbursement of approximately $320 million to the Treasury and other government agencies for the full cost of providing these services; reimbursement was received or is expected for all of the expenses incurred.

As fiscal agents, Reserve Banks provide the Department of the Treasury with services related to the federal debt. For example, Reserve Banks issue, service, and redeem marketable Treasury securities and savings bonds; they also process secondary-market Fedwire securities transfers initiated by depository institutions. In 2003, the Reserve Banks processed nearly 140,000 competitive and noncompetitive bids for Treasury securities and printed and mailed more than 40 million savings bonds. The Reserve Banks operate two book-entry (computer-based) securities systems for the custody of Treasury securities—the Fedwire book-entry securities system and TreasuryDirect. Almost all book-entry Treasury securities are maintained on Fedwire, which is also the nation's principal securities transfer mechanism; the remainder are maintained on TreasuryDirect, which is primarily used by individuals.

As fiscal agents of the United States, the Reserve Banks also invest excess Treasury balances with more than 1,100 depository institutions, which pay interest to Treasury for the use of the funds. In 2003, the Reserve Banks invested $438 billion of Treasury balances through the program. While most funds are callable on demand, the Reserve Banks implemented a program to place investments with depository institutions for a set term.

As depositories, Reserve Banks collect and disburse funds on behalf of the federal government. The Reserve Banks maintain the Treasury's funds account, accept deposits of federal taxes and fees, pay checks drawn on the Treasury's account, and make Fedwire and automated clearinghouse payments on behalf of the Treasury. In 2003, the Reserve Banks also assisted Treasury in its efforts to increase the use of electronic payment vehicles by assuming additional responsibilities for the Pay.gov Internet portal, which permits the public to pay Treasury and agencies via the Internet.

The Reserve Banks also provide fiscal agency and depository services to other domestic and international government agencies. Depending on the authority under which the services are provided, the Reserve Banks may maintain book-entry accounts of government agency securities, provide custody for the stock of unissued, definitive (physical) securities, maintain and update balances of outstanding book-entry and definitive securities for issuers, maintain funds accounts for government agencies, and provide various payment services, including the processing and destroying of redeemed food coupons for the U.S. Department of Agriculture.

System Policy Direction and Oversight

This operational area encompasses activities by the Board of Governors in supervising Board and Reserve Bank programs. At the System level, the expenses for these activities are considered overhead and are therefore allocated across the other operational areas. At the Board level, these expenses are not treated as overhead nor allocated to other operational areas. ▪

The Budgets

Chapter 1

Federal Reserve System

For 2004, total operating expenses are budgeted at $2,935.8 million, an increase of 2.0 percent from estimated 2003 expenses. Of this total, $2,666.4 million is for the Reserve Banks, and $269.4 million is for the Board of Governors (tables 1.1 and 1.2).[1] Revenue from priced services provided to depository institutions is expected to total $929.2 million, or 31.6 percent of total budgeted operating expenses. This revenue, combined with claims for reimbursement and other income, results in projected net operating expenses of $1,637.3 million.[2]

The System expects to recover 44.2 percent of its budgeted 2004 operating expenses through revenue from priced services, other income, and claims for reimbursement. When these items are deducted from budgeted 2004 operating expenses, the net expenses of the System show a decrease of 1.6 percent from estimated 2003 net operating expenses (table 1.1).

Not included in the budget for operations is the cost of currency, budgeted at $518.0 million for 2004, an increase of 4.2 percent from the 2003 estimated cost of $497.0 million.[3] The distribution of

1. The Board of Governors now budgets on a two-year cycle; in this chapter, 2004 values shown for the System and the Board reflect the estimated first-year effect of the Board's 2004–05 budget.

2. *Claims for reimbursement* refers to costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to these agencies. *Other income* comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services, which include the transfer of funds between depository institutions and the Treasury.

3. The Federal Reserve pays for the printing of new currency at the Bureau of Engraving and Printing. Because this cost is determined largely by public demand for new currency, it is not included in the Federal Reserve operating expenses. For more information, see appendix C, "Currency Budget."

Table 1.1

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 2002–04

Millions of dollars, except as noted

Item	2002 (actual)	2003 (estimated)	2004 (budgeted)	Percent change	
				2002–03	2003–04
Total System operating expenses	2,762.0	2,879.2	2,935.8	4.2	2.0
LESS					
Revenue from priced services	918.3	888.0	929.2	–3.3	4.6
Other income	1.0	0.8	0.8	–20.0	0.0
Claims for reimbursements[1]	308.6	326.8	368.4	5.9	12.7
EQUALS					
Net System operating expenses	**1,534.1**	**1,663.6**	**1,637.3**	**8.4**	**–1.6**

NOTE. Components may not sum to totals and may not yield percentages shown because of rounding.

Operating expenses reflect all redistributions for support and overhead, and they exclude capital outlays.

1. Costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies and other fiscal principals that are billed to these agencies.

Table 1.2

Expenses of the Federal Reserve System for Operations and Currency, 2002–04

Millions of dollars, except as noted

Item	2002 (actual)	2003 (estimated)	2004 (budgeted)	Percent change	
				2002–03	2003–04
Reserve Banks[1]	2,532.5	2,627.3	2,666.4	3.7	1.5
Personnel	1,615.4	1,677.1	1,661.8	3.8	–0.9
Nonpersonnel	917.1	950.2	1,004.6	3.6	5.7
Board of Governors[2]	229.5	251.9	269.4	9.8	6.9
Personnel	169.6	183.3	191.6	8.1	4.5
Nonpersonnel	59.9	68.6	77.8	14.5	13.4
Total System operating expenses	**2,762.0**	**2,879.2**	**2,935.8**	**4.2**	**2.0**
Personnel	**1,785.0**	**1,860.4**	**1,853.4**	**4.2**	**–0.4**
Nonpersonnel	**977.0**	**1,018.8**	**1,082.4**	**4.3**	**6.2**
Currency[3]	430.0	497.0	518.0	15.6	4.2

NOTE. Components may not sum to totals and may not yield percentages shown because of rounding.

Operating expenses include costs for special projects and exclude capital outlays.

1. For detailed information on Reserve Bank expenses, see chapter 3.

2. Includes extraordinary items and expenses of the Office of Inspector General. See also chapter 2.

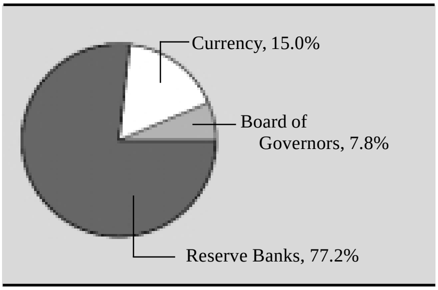
3. See appendix C.

expenses is similar to that in previous years, with the Reserve Banks' expenses accounting for 77 percent of the total, currency expenses accounting for 15 percent, and Board expenses accounting for the remainder (chart 1.1).

System employment is budgeted at 23,134 for 2004, a decrease of 830 from the estimated 2003 level.

Chart 1.1

Distribution of Expenses of the Federal Reserve System, 2004



2004 System Budget Initiatives

In response to the continuing decline in check volume, the Reserve Banks have established aggressive spending targets for their 2004 budgets. This spending restraint reflects the Banks' efforts to reduce direct operating costs of the check service, as well as Bank support and overhead costs, in keeping with a business and operational strategy to meet the System's long-term financial and payment system objectives. The strategy focuses on reducing check-service operating costs by streamlining management and administrative structures, decreasing the number of check-processing locations, and increasing processing capacity at some locations. The Banks' 2004 budget plans also fund other high-priority payment system objectives, such as those related to the Check Clearing for the 21st Century Act and various projects managed by Reserve Banks on behalf of the Treasury. The major factors affecting the 2004 Reserve Bank budgets are outlined in more detail in chapter 3.

Trends in Expenses and Employment

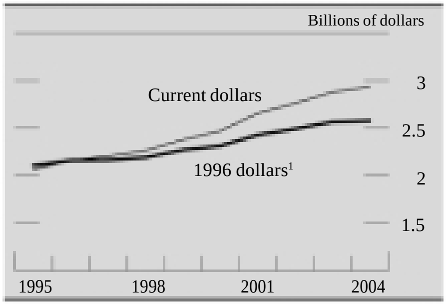
From actual 1995 levels to budgeted 2004 amounts, the operating expenses of the Federal Reserve System have increased an average of 4.0 percent per year (2.3 percent per year when adjusted for inflation) (chart 1.2). Over the same period, nondefense discretionary spending by the federal government has increased an annual average of 5.2 percent (chart 1.3). Over the 1995–2004 period, Federal Reserve System employment has decreased 2,341 (chart 1.4).

Throughout most of the 1990s, bank supervision costs grew as a result of the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and the Federal Deposit Insurance Corporation Improvement Act of 1991; an increase in the number and complexity of examinations; enhanced supervision of foreign institutions; and, to a lesser extent, increased attention to problem institutions. More recently supervisory costs have been related to initiatives related to the Gramm-Leach-Bliley Act and the USA Patriot Act, as well as continuing supervisory initiatives related to banking conditions and the development of a revised capital accord (Basel II). The System partially offset these increases through increased efficiencies in other areas, mainly services to the U.S. Treasury, services to financial institutions and the public, and support services. In the most recent years, the budget has grown at a slower rate, reflecting cost-reduction and efficiency initiatives.

Continued emphasis on efficiencies is reflected in lower staffing levels. Employment for 2004 is projected to decrease by 830 average number of personnel (ANP), largely because of planned staff reductions by the Reserve Banks, primarily in the check and support areas.

Chart 1.2

Operating Expenses of the
Federal Reserve System, 1995–2004

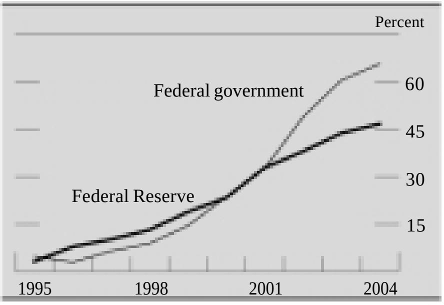


NOTE. For 2003, estimated; for 2004, budgeted.
1. Calculated with the GDP price deflator.

Chart 1.3

Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 1995–2004

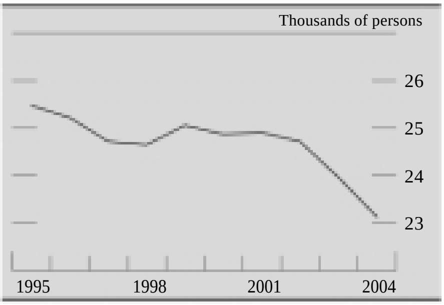
Includes special projects



NOTE. Federal government expenses are discretionary spending less expenditures on defense.
For 2003, estimated; for 2004, budgeted.

Chart 1.4

Employment in the
Federal Reserve System, 1995–2004



NOTE. For 2003, estimated; for 2004, budgeted.

2004 Capital Budgets

The capital budget for both the Reserve Banks and the Board totals $495.9 million. The Board's 2004–05 capital budgets is $28.5 million. The budget includes $15.8 million for continued security enhancements and major projects in the Board's building. A more detailed discussion of the Board capital budget is included in chapter 2.

The 2004 capital budget for the Reserve Banks, Federal Reserve Information Technology (FRIT), and the Office of Employee Benefits (OEB) totals $467.4 million, a $60.9 million increase from the 2003 estimated levels. The budget includes $398.8 million for the Banks, $67.4 million for FRIT, and $1.2 million for OEB. As in previous years, the 2004 capital budgets include funding for projects that support the strategic direction outlined by the individual Reserve Banks' and the System's plans. These strategic goals focus on investments that improve operational efficiencies and services to Bank customers and on providing a safe, quality work environment. A more detailed discussion of Reserve Bank capital budgets is included in chapter 3. ▪

Chapter 2

Board of Governors

Every two years, the Board and its senior staff undertake a process that produces a four-year strategic plan and a biennial budget. For the 2004–07 planning period and the 2004–05 budget period, the Committee on Board Affairs, assisted by a senior-level Staff Planning Group (SPG) and staff in the Program Analysis and Budget Section of the Management Division, guided the process. The 2004–05 budget for the Board consists of $528.6 million for operations, $10.0 million for extraordinary items (projects of a unique nature), and $8.5 million for the Office of Inspector General. The Board has authorized 1,895 staff positions and 31 positions for the Office of Inspector General; no positions are required for the extraordinary items.

Planning Issues

The Staff Planning Group reviewed the planning materials submitted by the Board's divisions and offices and identified the following major issues that will have Boardwide impact over the planning period:

- strategic human resource issues, including support for efforts to attract and retain highly qualified staff
- information technology initiatives that provide the public with improved access to Board data and information
- legislation and support for initiatives, such as Basel II
- physical and information security and continuity of operations
- investments in facilities

These issues are reflected in the resource-allocation decisions of the Committee on Board Affairs that are the basis of the approved budget. They will also serve as the basis for the 2004–05 performance plan prepared as part of the Board's voluntary compliance with the Government Performance and Results Act.

Major Initiatives

To address these major planning issues, the approved budget includes the following initiatives and projects for the 2004–05 period.

- *Attract and retain staff.* Initiatives to improve the Board's ability to attract and retain staff include the variable-pay program for economists, attorneys, and officers; a 4.1 percent merit increase for 2004 and a placeholder of 3.5 percent for the 2005 merit increase; and actions to enhance productivity and meet new requirements, such as improved information technology equipment, access to enhanced data sets, and a slight increase in staffing to assist with current analysis.
- *Information technology (IT).* Funding is provided for the Board to comply with e-government initiatives such as improved public access to data, information security, and section 508 compliance.
- *Workload.* A small increase in the number of positions, a reallocation of positions to meet higher-priority requirements, and the filling of a number of vacant positions are necessary in order to comply with new laws that affect Board operations, such as the Federal Information Security Management Act, to fulfill expanded supervisory responsibilities under the

Sarbanes-Oxley Act, and to prepare for Basel II and other key initiatives.
- *Security and continuity of operations.* Funding to hire and train armed security staff authorized during the 2002–03 biennium, and other actions to enhance employee safety and the Board's ability to operate in a contingency environment, added significantly to the budget.
- *Facilities.* In line with the Board's strategic plan, capital investments are planned for the three Board facilities, as discussed below in the section on the capital budget. Additional noncapital improvements are also planned at all three facilities.

Areas of Risk

Despite a careful and coordinated planning effort, future developments such as the following could require resources beyond what is currently approved:

- a merit increase greater than the 3.5 percent for 2005
- significant changes in or shocks to the economy or the financial system that create a material increase in workload
- additional terrorist activity resulting in more security and contingency requirements
- a decision to fund a major Systemwide supervisory technology initiative such as the Shared National Credit Program
- increased workload created by laws or decisions to expand or modify central bank operations
- changes to the position-vacancy-rate assumptions used in developing the salary budget and a need for more office space if the staff increases

Operations Budget by Operational Areas

The Board's operations budget supports four broadly defined operational areas: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and Federal Reserve System policy direction and oversight (tables 2.1 and 2.2). The fol-

Table 2.1

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 2002–05

Thousands of dollars, except as noted

Operational area, extraordinary items, or Office of Inspector General	2002–03 (budgeted)	2002–03 (estimated)	2004–05 (budgeted)	Average annual percent change	
				2002–03 estimated compared with 2002–03 budgeted	2004–05 budgeted compared with 2002–03 estimated
Monetary and economic policy	190,057	190,057	210,168	0.0	5.2
Supervision and regulation	195,354	195,354	221,060	0.0	6.4
Services to financial institutions and the public	9,045	9,045	10,299	0.0	6.7
System policy direction and oversight	77,696	77,696	87,043	0.0	5.8
Total, Board operations	**472,152**	**472,152**	**528,570**	**0.0**	**5.8**
Extraordinary items	1,500	1,560	10,000	2.0	153.2
Office of Inspector General	7,757	7,751	8,533	0.0	4.9

NOTE. Operating expenses reflect all redistributions for support and allocations for overhead, and they exclude capital outlays. Components may not sum to totals and may not yield percentages shown because of rounding.

lowing is a summary discussion of the resources, including support and overhead, budgeted for each area for 2004–05.

Monetary and Economic Policy

The 2004–05 budget for the monetary and economic policy function is $210.2 million, an increase of $20.1 million, or an average of 5.2 percent per year. Activities in this operational area include the Board's monitoring and analysis of developments in the money and credit markets, the setting of reserve requirements, the approval of changes in the discount rate, and other activities related to managing the nation's monetary policy.

Besides the additional funding for compensation initiatives, increases in this area will cover the acquisition of additional data to assist staff. These data relate to credit risk, retail banking fees and services, global financial markets, and consumer credit.

Supervision and Regulation

The 2004–05 budget for the supervision and regulation function is $221.1 million, an increase of $25.7 million, or an average of 6.4 percent per year.

Activities in this area include working with other federal and state financial authorities to ensure safety and soundness in the operation of financial institutions, stability in the financial markets, development of guidance related to regulatory capital and risk management, and fair and equitable treatment of consumers in their

Table 2.2

Positions Authorized at the Board of Governors, by Operational Areas, Support and Overhead, and Office of Inspector General, 2002–05

Thousands of dollars, except as noted

Operational area, extraordinary items, or Office of Inspector General	2002–03 (budgeted)	2002–03 (estimated)	2004–05 (budgeted)	Annual average percent change: 2002–03 estimated compared with 2002–03 budgeted	Annual average percent change: 2004–05 budgeted compared with 2002–03 estimated
Monetary and economic policy	433	430	426	–0.3	–0.5
Supervision and regulation	381	384	385	0.4	0.1
Services to financial institutions and the public	22	24	24	4.4	0.0
System policy direction and oversight	163	168	173	1.5	1.5
Support and overhead[1]	691	860	860	11.6	0.0
Subtotal	1,690	1,866	1,868	5.1	0.0
Reimbursable IRM support[2]	25	27	27	0.0	3.9
Total, Board operations	**1,715**	**1,893**	**1,895**	**5.1**	**0.1**
Extraordinary items	. . .	. . .	. . .	. . .	. . .
Office of Inspector General	29	31	31	3.4	0.0

1. Includes seventeen youth positions, ten worker trainee positions, and four summer intern positions.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

financial transactions. The 2004–05 budgetary increases will enhance supervisory activities such as monitoring, inspecting, and examining banking organizations to assess their condition and their compliance with relevant laws and regulations as well as the development of supervisory guidance that addresses an increasingly complex financial environment and risk-management techniques. Programmatic increases include funding for positions added in late 2003, greater focus on money-laundering activities, the development of a revised international capital accord, international training and assistance to foreign governments, and a review of regulations and policies related to consumer protection. As risk-management processes and financial transactions become increasingly complex, staff will need to spend more time on complex bank examinations, monitoring new and innovative risk-management practices and ensuring that proper controls are in place at all financial institutions under the Federal Reserve's supervision.

Services to Financial Institutions and the Public

The 2004–05 budget for oversight of Reserve Bank services to financial institutions and the public is $10.3 million, an increase of $1.3 million, or an average of 6.7 percent per year.

This increase, aside from compensation and security initiatives, is primarily due to the development of the Cash Statistical Data System.

System Policy Direction and Oversight

The 2004–05 budget for System policy direction and oversight is $87.0 million, an increase of $9.3 million, or an average increase of 5.8 percent per year.

This increase, aside from compensation initiatives, is due to the continued focus on security and contingency planning.

Capital Budget

The Board's 2004–05 capital budget is $28.5 million. Of this total, $15.8 million is for continued security enhancements and major building projects. Major facility projects include perimeter security enhancements, a fire sprinkler system, design for a Martin Building renovation, building security and office reconfigurations, and a new access control system to improve monitoring of individuals entering Board facilities.

Information technology projects, including server replacements, network infrastructure, and data security enhancements, will cost $4.6 million. Another $6.8 million is for nonautomation projects such as enhancements to the Board's web site and a new telephone system.

The remaining $1.3 million is for a new mainframe, software, furniture, and other miscellaneous items.

Positions

For the 2004–2005 budget period, staffing requests resulted in a net increase of two positions in the Board's position authorization, bringing the total to 1,895 positions (see appendix D, table D.2).

A net increase of seven positions was approved in the Management Division for five maintenance staff for the New York facility purchased in 2001, one industrial hygienist, and one construction assistant.

The Office of Board Members, Office of the Secretary, Legal Division, and Special Projects abolished seven positions.

Four positions were transferred to the Office of Staff Director for Management from the Information Center staff within the Division of International Finance. The Division of Consumer and Community Affairs had a net increase of two policy-related positions, self-funded by reducing the level of current information technology resources.

2002–03 Budget Performance

During the 2002–03 budget period, the operating budget increased by $17.2 million (3.8 percent) largely due to increased security costs after September 11, 2001. Budgeted personnel-related expenses increased by $8.6 million (2.5 percent), while expenses for goods and services increased by $7.5 million (5.6 percent). Income decreased by $1.0 million (5.9 percent) due to renegotiated charges for processing data collected under the Home Mortgage Disclosure Act and less usage of the mainframe by Federal Reserve Banks. Final expenses for Board operations are expected to be on target at $472.2 million.

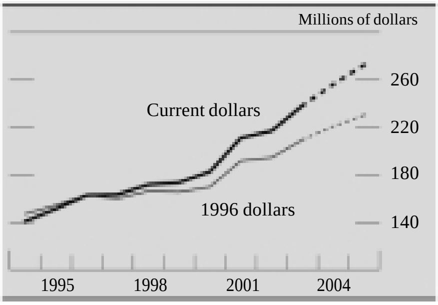
The increase in personnel-related expenses was a result of the decision to hire and develop a security staff that meets rigorous federal law enforcement standards, rather than continue to hire outside contractors. Although the in-house security staff was supplemented with contractors through part of the biennium, the full staff has now been assembled.

Average employment during the 2002–03 biennium was approximately 1,724, which was 114 employees (7.0 percent) higher than the 2000–01 average of 1,610. These additions are related to the increase in security staff. In addition, the variable-pay program, which was created to increase recruitment and retention of economists, attorneys, and officers, has been successful in decreasing turnover and will continue as a Board program.

The largest contributing factor in the increase in goods and services is contractual professional services for canine screening teams and private security guards to ensure the safety of Board employees. Increases in telecommunications expenses are primarily associated with the contingency site established to allow uninterrupted Board service to the public in emergencies.

Chart 2.1

Operating Expenses of the Board of Governors, 1994–2005



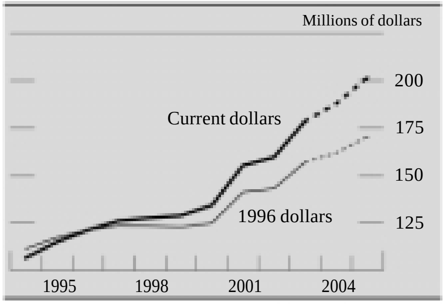
Trends in Expenses and Employment

The rate of increase within the 2004–05 budget is 5.8 percent per year, which is less than the 6.3 percent projected average annual rate of increase since the 1994–95 biennium (chart 2.1). The increase since the 1994–95 biennium is mainly attributable to strategic human capital initiatives and the increasing complexity of Board work over this period. This increased complexity required a net increase in positions and higher average grades, higher salaries, and increasingly sophisticated automation systems to manage ever-increasing volumes of data. More recently, the Board has experienced sharply higher security and contingency costs.

Approximately three-fourths of the Board's operating expenses are for personnel (chart 2.2); consequently, analysis of trends is heavily tied to staffing levels. From 1994 to 2005, the number of authorized positions for Board operations rose from 1,644 to 1,864, a net increase of 221, or 13.4 percent (chart 2.3). However, a large part of this increase is for enhanced security. Reflecting the grow-

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1994–2005

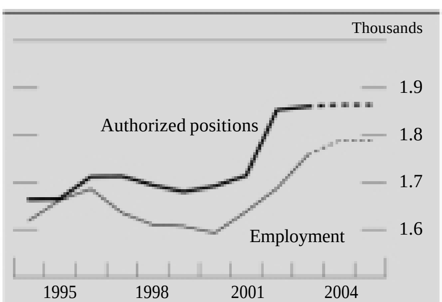


ing complexity of the Board's work, the average grade for professional staff rose from 25 to 26.

During the ten-year period, changes in banking, many associated with operations risk, increased the complexity of supervisory safety-and-soundness activities. To adequately perform these activities, and to increase attention to consumer issues, including collection and analysis of data for the Home Mortgage Disclosure Act and Community Reinvestment Act, a net of thirty-four positions were added. (Many positions associated with lower-priority work were eliminated to offset part of the cost of the new work.) The increasing complexity of monetary policy issues resulted in an increase of twenty-five positions.

Chart 2.3

Employment and Authorized Positions at the Board of Governors, 1994–2005



Note. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General. These positions number 62 for 2004 and 2005. Includes positions that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

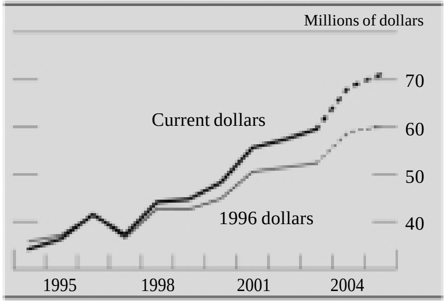
There has been substantial change in the overall Reserve Bank environment, including numerous operational consolidations and related changes to the governance process. As a result of these changes, as well as the need to track private-sector clearing and settlement organizations, nineteen positions were added.

Finally, a net decrease of five administrative and support positions resulted from the Board's efforts to outsource where feasible. Without these efforts, the number of administrative and support positions would have increased because of enhanced security and the purchase of an office building to replace leased space.

While the number of positions at the Board has fluctuated during the 1994–2005 period, the salary budget (not including retirement and insurance benefits) has remained relatively constant at roughly 63 percent of operating expenses. The portion of operating expenses devoted to retirement and insurance has increased approximately one percentage point over the period as a result of administrative actions to enhance benefits such as the Thrift Plan and because of significant rate increases for health insurance.

Over the 1994–2005 period, the average annual increase in expenses for goods and services has been 6.4 percent (chart 2.4). The largest increase was in contractual professional services. This growth resulted primarily from three factors: (1) increased use of contracting services in the divisions of Information Technology, Management, and Banking Supervision and Regulation; (2) significant increases in the amount and cost of data acquired from third parties; and (3) procurement of outside legal services. Partially offsetting the overall increase is a significant decrease in rental costs due to

Chart 2.4
Operating Expenses of the
Board of Governors, 1994–2005



the purchase of the New York Avenue building.

Survey Expenses

The Board's extraordinary items budget for 2004–05 provides funds of $10.0 million for the Survey of Small Business Finances ($3.3 million) and the Survey of Consumer Finances ($6.7 million). These surveys, which gather information on the economic behavior of U.S. households and the financial health of U.S. firms, will improve the quality of economic analysis produced by the Board. A summary article on the Survey of Consumer Finances is expected to be published in the January 2006 *Federal Reserve Bulletin*, and a version of the survey data will be released to the public shortly thereafter. Preparations for the 2004 Survey of Consumer Finances have been under way since 2003.

Office of Inspector General

The 2004–05 budget of $8.5 million for the Office of Inspector General (OIG) is separate from the Board's budget. The OIG's budget is prepared in a manner that is consistent with the preparation of the Board's operating budget. In conformance with the statutory independence of the office, the OIG presents its budget directly to the Chairman of the Board of Governors for consideration by the Board. ■

Chapter 3

Federal Reserve Banks

The 2004 operating budgets of the twelve Reserve Banks total $2,666.4 million.[1] The 2004 total is $39.1 million, or 1.5 percent, above estimated 2003 expenses (table 3.1).[2]

The modest increase in the 2004 Reserve Banks' budgets reflects continued initiatives to streamline operations and improve operational efficiency. The Banks' budgets reflect reductions in several areas, primarily in support services and check functions. Banks have been able to limit overall cost increases through the consolidation of selected operations and through continued efforts to realize efficiencies in workflow and service delivery. Lower costs in the check operation reflect efficiencies as the Reserve Banks near completion of a multiyear effort to modernize the check operating environment, as well as the effect of a check-restructuring initiative, which reduces the number of check-processing sites and consolidates check-adjustment and administrative functions. Spending restraint has been facilitated in part by voluntary retirement programs at the majority of Reserve Banks.

After considering the effect of revenue and reimbursements, the Reserve Banks' 2004 budgeted net operating expenses are $1,368.0 million, 3.1 percent lower than the 2003 estimate. The decrease reflects a 6.9 percent increase in revenue and

1. These expenses include those budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB). Expenses for these entities have been charged to the Reserve Banks, as appropriate, and included in their budgets.

2. Unless otherwise noted, 2003 expenses also include costs associated with the check-standardization special project. Special projects are major efforts having Systemwide significance that are outside the budgets of the individual Reserve Banks. There are no special projects in 2004.

Table 3.1

Expenses of the Federal Reserve Banks, Net of Receipts and Claims for Reimbursement, 2003 and 2004

Millions of dollars except as noted

Item	2003 (estimated)	2004 (budgeted)	Change	
			Amount	Percent
Operations	2,627.3	2,666.4	39.1	1.5
LESS				
Revenue from priced services	888.0	929.2	41.2	4.6
Other income	0.8	0.8	0.0	0.0
Claims for reimbursement[1]	326.8	368.4	41.6	12.7
EQUALS				
Net expenses	**1,411.7**	**1,368.0**	**–43.7**	**–3.1**

NOTE. Excludes capital outlays. Includes expenses budgeted by Federal Reserve Information Technology (FRIT) and the System's Office of Employee Benefits (OEB). Expenses from these entities have been charged to the Reserve Banks, as appropriate, and included in their budgets. Components may not sum to totals and may not yield percentages shown because of rounding.

Operating expenses reflect all redistributions for support and allocations for overhead.

1. Costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to these agencies.

reimbursements and stringent spending targets established by System business leaders as the Reserve Banks strive to improve priced-service cost-recovery performance. Approximately 49 percent of Reserve Bank expenses in the 2004 budget are offset by priced-service revenues (35 percent) and reimbursable claims for services provided to the Treasury and other agencies (14 percent). The budgeted 2004 service revenue is higher than the 2003 estimated level, largely because of higher imputed net income on clearing balances (NICB) and, to a lesser extent, price increases.[3] Reimbursable claims will increase 12.7 percent in 2004, reflecting additional efforts by the Reserve Banks on behalf of the Treasury.

Total 2004 projected employment for the Reserve Banks, FRIT, and OEB is 21,300 average number of employees (ANP), a decrease of 860 ANP, or 3.9 percent, from 2003 estimated staff levels (table 3.2).[4] If the Reserve Banks realize this staffing decrease, it will be their largest annual workforce reduction since the System began collecting automated cost-accounting information in 1977. Most Banks are reducing staff in the check service as a result of the successful transition to the standardized check platform, the check-restructuring effort, declining volumes, and efforts to improve priced-service performance through additional efficiencies. The remainder of the reduction is the net effect of several System and District efforts to meet System cost-reduction initiatives and improve operational efficiencies. Voluntary retirement incentive programs announced at nine Reserve Banks and FRIT help achieve these reductions.

2003 Budget Performance

Total 2003 expenses are estimated to be $2,627.3 million, which represents a decrease of $2.6 million or 0.1 percent from the approved 2003 budget of $2,629.9 million. The Banks, FRIT, and OEB estimate ANP at 22,160, a decrease of 262 ANP from approved 2003 levels.

The decrease in the estimate reflects reductions in support and overhead areas

3. The increase in NICB is associated with a change in methodology to calculate imputed investment income and a change in the rate at which earnings credits are paid to depository institution holders of clearing balances. Both changes were approved by the Board in October 2003.

4. ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who starts work on July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start on January 1 count as 1 ANP.

Table 3.2

Employment at the Federal Reserve Banks, FRIT, and OEB, 2003 and 2004

Average number of personnel except as noted

Item	2003 (estimated)	2004 (budgeted)	Change	
			Amount	Percent
Reserve Banks	21,366	20,551	–815	–3.8
Federal Reserve Information Technology	759	713	–46	–6.1
Office of Employee Benefits	36	37	1	2.8
Total	**22,160**	**21,300**	**–860**	**–3.9**

NOTE. Components may not sum to totals and may not yield percentages shown because of rounding. See text note 4 for definition of *average number of personnel*.

totaling $18.0 million. Reserve Banks noted cost savings from major staff reductions in general administrative services (89 ANP), information technology (IT) services (40 ANP), human resource functions (30 ANP), business development (19 ANP), and accounting functions (13 ANP). These reductions were achieved through consolidation of operations, operational efficiencies, and a change in service levels as areas better align resources with business activity. In addition, operational efficiencies and lower-than-expected volumes in the cash area result in a $9.9 million and 25 ANP decrease, and the cancellation by the Treasury of a project to integrate sites that process savings bonds by having a single customer service contact number will save $3.7 million.

These savings are partially offset by higher-than-budgeted costs in the check area related to initiatives to improve cost-recovery performance in the long term. Check-related projects were estimated to be $33.2 million over budget in 2003. Three major projects account for this cost overrun:

1. The System's decision to restructure the provision of check services will result in nonrecurring expenses of approximately $26.2 million, which were accounted for in 2003, for separation payments, lease buyouts, retirement of impaired assets, and facilities expenses associated with closing selected check-processing operations that were not included in the original budget.
2. Conversion to the national, standardized check-processing platform is estimated to be $5.0 million over budget because of the use of unbudgeted staff support, additional overtime, and travel.
3. The conversion of the legacy check-image files to the new FedImage system required an additional $4.0 million for additional staff, software costs, and fees, because of an unplanned software upgrade and the three-month extension of consultant services.[5]

The check-project overruns are partially offset by a decrease in costs of the check-standardization special project ($2.9 million) resulting from earlier Reserve Bank conversions and from severance payments for this project having been budgeted but not paid.

Factors Affecting the 2004 Budget

Check Service

The Reserve Banks continue to be challenged by shortfalls in check-cost recovery. In 2004, the System will continue to see cost reductions with the completion of two major initiatives in the check service: (1) check modernization, which includes four projects—check standardization, enterprise-wide adjustments, FedImage, and check electronic access and delivery—and (2) the current check-restructuring effort. With the completion of the check-modernization initiative, the 2004 costs for supporting and implementing further enhancements to the check-modernization systems will be $32.6 million less than estimated for 2003.

Check restructuring, which was announced early in 2003, will better align the Federal Reserve check-processing infrastructure with the evolving market environment, provide greater flexibility in managing check operations, and improve resource allocation. The 2003 estimate and 2004 budget reflect plans to reduce the number of check-processing locations from 45 to 32 and to consolidate the number of check-adjustment functions from 43 locations to 12 regional sites. Although the planned restructuring efforts will be completed by the end of

5. Staff includes outside-agency and hourly help.

2004, many costs associated with this initiative, such as one-time separation pay and asset-impairment expenses, were accrued in 2003. The 2004 budget includes $29.0 million to fund additional efforts to streamline check operations and to support resource needs anticipated as the Banks prepare for changes associated with the Check Clearing for the 21st Century Act (Check 21 Act).

Support Services

As in 2003, the 2004 budget reflects cost savings from staff reductions in the support service areas. These reductions are the result of consolidations and efficiency measures as well as a shrinking base of internal customers demanding support services. Savings in support services are driven in large part by aggressive multiyear savings targets established by the IT, human resources, and business development areas.

Local IT costs are budgeted to decrease $14.3 million from the 2003 estimate and $37.8 million from the 2001 budget. This reduction is part of a multiyear initiative to reduce IT costs.[6] These savings are being realized through several cost-reduction initiatives, such as e-mail server administration and management, standardization of desktop PC configurations, implementation of active directory, and server standardization and management.[7] The human resources area also has a multiyear cost-reduction initiative. These costs are budgeted to decrease $3.1 million from the 2003 estimate and $8.3 million, or 13 percent, from 2001 actual expenses. The savings are a result of the consolidation of benefits and payroll functions, and other workflow efficiencies.

Local customer support and marketing costs are budgeted to decrease as well. The $5.4 million reduction from the 2003 estimate is due in large part to the consolidation of electronic access customer support at two sites, which will be completed by April 2004. Total business development costs have declined $11.8 million, or 14 percent, from 2001 actual expenses. In addition to the reductions in IT, HR, and customer support and marketing, costs for administrative services are budgeted to be slightly below the 2003 estimate, reflecting overall staff reductions, lower printing costs, use of digital technology, and a decline in printing volume. The savings in support services are exclusive of security-enhancement efforts, which are budgeted to increase $6.7 million.

Treasury-Related Functions

The Treasury continues to request services from the Reserve Banks on its behalf. The Banks are fully reimbursed by the Treasury for these services. All projects are reviewed by the Reserve Banks' Treasury Relations and Support Office (TRSO), along with Board staff, to ensure that Federal Reserve resources are used effectively. A majority of the projects involve converting from paper-based to electronic payments and using web technology for increased efficiency. Treasury initiatives that account for the largest cost increases are the Treasury Web Application Infrastructure ($11.5 million), the Pay.gov/paper check conversion ($9.3 million), the Treasury Check Information System ($1.2 million), and the Treasury Web Central Reporting System ($0.9 million). In addition, at the request of the Financial Management Service (FMS), the TRSO will manage two market research projects and a market-

6. The IT multiyear target excludes support for Treasury initiatives, check-modernization projects, and economic research.

7. The active directory project is a centralized and standardized system that automates network management of user data, security, and distributed resources, enabling interoperability with other directories.

ing campaign to support the FMS goal of increasing electronic payments of federal benefits payments ($8.5 million). Slightly offsetting these increases are savings from lower support and overhead costs charged to the Treasury, and staff reductions and lower associated expenses in TreasuryDirect and saving bonds operations due to declining volumes.

Supervision and Regulation

Supervision and regulation expenses are increasing 5.2 percent from the 2003 estimate. The increase is driven largely by annual salary merit increases, higher salary costs related to hiring more experienced staff, and resource needs at two Reserve Banks.

2004 Personnel Expenses

Personnel expenses, which include both salaries and benefits, represent 62 percent of the budget. The budgets include $88.8 million to fund salary administration programs for officers and employees.[8] Expenses associated with merit programs and with cash awards and incentives account for about 85 percent of salary administration. A total of $38.5 million has been included for merit programs. The average merit increase is budgeted at 3.4 percent for officers and 3.2 percent for employees, lower than the 2003 average merit increases of 3.6 percent for officers and 3.5 percent for employees.

Officer incentive payments and cash awards total $11.7 million.[9] Employee incentive payments and cash award funds total $25.6 million.[10]

Officer turnover, including retirements, is projected to increase from an estimated 5.4 percent in 2003 to 7.3 percent in 2004.[11] Average employee turnover is projected to increase from an estimated 9.8 percent in 2003 to 12.9 percent in 2004. The rise in turnover is in large part due to the voluntary retirement programs and the check-restructuring efforts. Approximately 80 officers and 900 employees are projected to leave the System under the voluntary retirement programs, with the majority of departures occurring in 2004. The average cost-recovery period is estimated at 1.4 years, with the expected replacement rates for these programs varying by Reserve Bank and ranging from 34 percent to 80 percent.

Retirement and other benefit expenses, which account for 14 percent of Reserve Bank budgets, are anticipated to increase by $20.2 million, or 5.4 percent, in 2004. The primary factors driving the high cost increases in non-salary-related benefits are increases in health care and group life insurance costs. The increases in employer contributions for health benefits average 13.8 percent for non-HMO plans and less than 1 percent for HMOs. An estimated $4.2 million in savings from the System's new consolidated health care program has helped to offset some of the increase in employer contributions.

Areas of Risk in the 2004 Budget

The effects of check restructuring, volume declines, and revenue loss pose a

8. 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.

9. For 2004, the officer variable-pay threshold remained at 8.0 percent of salary liability.

10. The 2004 employee variable-pay threshold remains at 2003 levels: 8.0 percent for the special professional grades, 4.0 percent for the top three grades, and 1.7 percent for all other grades.

11. Turnover rates include full-time, part-time, and hourly voluntary and involuntary departures, regardless of whether the positions will be refilled.

higher-than-usual risk to the check service in 2004. Delays in the check-restructuring project, as check operations are consolidated, could result in higher-than-budgeted staffing, overtime, and facility costs. The budget would also be affected by higher overtime costs for resolving reconcilement issues or unanticipated write-offs. The budget reflects a projected 8.9 percent decrease in processed-check volume. Budgeted check revenues would be affected adversely by further volume declines.

Reserve Banks also noted some risk associated with unanticipated requests to perform work on behalf of the Treasury, the loss of key staff, and possible structural changes in the business development and marketing areas. As in the past, changes to the services the Reserve Banks provide as fiscal agent may result in differences between budgeted and actual costs for 2004. In addition, the voluntary retirement programs offered in nine Reserve Banks and FRIT present the risk of losing key staff. Although many Banks have noted that they have developed succession plans, there is the risk that the loss of experienced staff and difficulty filling key positions could adversely affect some Bank operations.

2004 Capital Budget

The 2004 capital budget submitted by the Reserve Banks, FRIT, and OEB totals $467.4 million, a $60.9 million increase from the 2003 estimated levels. The increase in 2004 outlays from the 2003 estimate is due largely to planned new building programs.

As in previous years, the 2004 capital budget includes funding for projects that support the strategic direction outlined in the individual Reserve Banks' and the System's plans. These strategic goals focus on investments that improve operational efficiencies and services to Bank customers, and on providing a safe, quality work environment. In support of these strategies, the 2004 budget identifies five major categories of capital outlays: building projects and facility improvements, payment system improvements, automation and communication initiatives, security enhancements, and miscellaneous acquisitions.

Building Projects

The proposed capital budget includes an estimated $249.9 million for building-related projects and facility improvements. Over half of this total ($143.3 million) is related to the new building projects in Detroit, Houston, Kansas City, and Seattle. The remaining outlays in this category ($55.6 million) will fund various other building renovation and refurbishment projects, as well as miscellaneous facility-improvement and energy-efficiency projects.

Payment System Projects

The budget includes $97.1 million for initiatives related to payment system improvements. Almost half of these funds ($41.6 million) are for reimbursable expenses for Treasury initiatives. Although the majority of the System's investment in the standard software platform for check standardization is complete, the 2004 capital budget includes outlays to prepare for check restructuring, changes authorized by the Check 21 Act, and customer demand for image services ($14.8 million). The 2004 capital budget also includes funding, mainly at FRIT, to support the growth in processing capacity ($7.3 million). Other outlays are for improvements in the cash services area ($9.8 million) and to support FRIT's web applications infrastructure initiative ($11.9 million).

Information Technology Projects

Banks have included $61.6 million in funding for major information technology initiatives. These initiatives do not include the automation components of building or payment systems initiatives that are discussed separately. Of the total automation-related outlays, FRIT projects and acquisitions account for over 40 percent, or $27.0 million. Aside from FRIT, the District budgets include the replacement of aging servers, in compliance with the System's Server Management Initiative ($7.2 million), and telecommunications projects at several Reserve Banks ($4.2 million). The remainder of the budget is for various equipment and software to support local and System initiatives.

Security Enhancements and Miscellaneous Items

Finally, the proposed capital budget includes $53.9 million in funding for security enhancements and $4.9 million for miscellaneous capital items. Miscellaneous capital includes funding for other equipment and software not falling into the other defined categories. ▪

Appendixes

Appendix A

Federal Reserve Budget Processes

This appendix gives an overview of the separate budgets and budgeting processes followed by the Board of Governors and the Reserve Banks. The Federal Reserve System's intent in the development and publication of this information is to provide the reader with the assumptions and initiatives considered when the Federal Reserve System budgets were developed and approved by the Board of Governors.

Board of Governors

The Board's budget covers a two-year period. Toward the end of the first year of the budget cycle—the even-numbered year—the strategic plan for the next four years is updated, and the second year is used to develop the budget for the next two years. The two-year cycle begins in the fall (thus, for the 2004–05 budget, in the fall of 2002). At that time, the Board's divisions examine their operating environments and look for any adjustments to their mission, priorities, activities, and associated resources that might improve the efficiency and effectiveness of the Board's operations.

The management of each division discusses with the appropriate Board oversight committee the issues that result from its review. After any adjustment, the results are given to the Staff Planning Group, a small group of senior managers with a Boardwide perspective, for use in their analysis of the Board's budget options.

After consulting with the Board-level Committee on Board Affairs for final guidance, the Program Analysis and Budget staff updates the strategic plan, which is used to prepare a preliminary budget objective that identifies the level and allocation of resources needed to support the plan. As part of this process, individual division budget objectives are prepared on the basis of Boardwide priorities and planning assumptions. The Committee on Board Affairs reviews the plan and preliminary budget objective, clarifies outstanding planning issues with the Staff Planning Group and division directors and, at the end of summer in odd-numbered years, submits the budget objective to the Board for its consideration.

The divisions use the budget objective approved by the Board to complete their budgeting under the approved plan. The Board's Committee on Board Affairs, under authority delegated by the Chairman, oversees the process until the budget is submitted to the Board for action in the fall of the odd-numbered year. The budget memorandum is provided to the public on the Board's public web site and becomes the primary source for this and other similar documents.

The Board of Governors budgets its resources by division and accounts for its activities by division and across operational areas. Direct costs, such as those for salary, retirement, insurance, and travel, are billed to the operational areas. Costs for data processing are also charged as a direct expense to each of the areas according to service-level agreements (at prices derived from the cost of resources needed to provide the services and agreed upon before the budget year starts). Expenses for other elements of support and overhead are distributed among the operational areas in proportion to the share of direct costs attributable to each area.

The Board, in accordance with generally accepted accounting principles, capitalizes certain assets and depreciates their value over appropriate periods instead of expensing them in their year of purchase. Hence, the Board has both an operations budget and a capital budget.

After the budget is approved by the Board, it is converted to an operating plan that allocates funding by month; the operating plan is also the vehicle for subsequent adjustments within the budget. Also at this point, the cash requirement for the first half of the calendar year is estimated, and the amount is raised by an assessment on each of the Reserve Banks in proportion to its capital stock and surplus. The cash requirement for the second half of each year is estimated in June, and the second assessment is made in July.

The Board accounts for extraordinary items separately from the operations budget so that unique, one-time requirements do not compete with regular operations and so that expenses in those operations can be readily compared across years without distortion. As discussed more fully in chapter 2, the extraordinary items budget for 2002–03 consists of funds to support planning for two periodic surveys, one on consumer finances and the other on small business finances.

The Board's Office of Inspector General (OIG), in keeping with its statutory independence, prepares its proposed budget apart from the Board's budget. The OIG presents its two-year budget directly to the Chairman for action by the Board, also in the fall.

Reserve Banks

Each year the Federal Reserve Banks establish major operating goals for the coming year, devise strategies to attain those goals, estimate required resources, and monitor results. The process begins with development of budget guidance by the business leaders in each functional area. This information is used to develop a preliminary budget projection, the Reserve Bank budget outlook (RBBO). Each Bank then develops its own budget using the business-leader guidance. The budgets are reviewed at the Board by a committee of governors—the Committee on Federal Reserve Bank Affairs—both individually and in the context of Systemwide issues and the plans of the other Banks. The budgets are then presented to the full Board of Governors for final action in December.

The Banks' budgets are structured in operational areas, with support and overhead charged to these areas.

As is the case with the Board, the Banks, in accordance with generally accepted accounting principles, capitalize certain assets and depreciate their value over appropriate periods instead of expensing them in the year of purchase. Hence, the Banks have a capital budget in addition to an operating budget.

The Banks budget annually for capital outlays by capital class to estimate the effect of total operating and capital spending. During the budget year, the Banks must submit proposals for major purchases of assets to the Board for further review and approval.

The operations and financial performance of the Reserve Banks are monitored throughout the year via a cost-accounting system, the Planning and Control System (PACS). Under PACS, the costs of all Reserve Bank services, both priced and nonpriced, are grouped by operational area, and the costs of support and overhead are charged to these areas. PACS makes it possible to compare budgets with actual expenses and facilitates comparison of the financial and operating performances of the Reserve Banks. ■

Appendix B

Priced Services

The Monetary Control Act of 1980 requires the Federal Reserve to charge depository institutions for certain services that the Federal Reserve had previously provided without explicit charge and only to member banks. As the act requires, the fees charged for providing these priced services are set to recover, over the long run, all direct and indirect costs of providing the services plus imputed costs, including the interest on items credited before actual collection (float), and the private-sector adjustment factor (PSAF). The intent of the PSAF calculation is to impute the costs that would have been incurred, such as taxes that would have been paid; and the profits that would have been earned, such as the return on capital, had the Federal Reserve Banks' priced services been provided by a private firm. Table B.1 provides details on projected revenue from priced services.

Annual Pricing Process

To meet the requirement for the full recovery of costs over the long term, the Federal Reserve has developed an annual pricing process involving projections of Reserve Bank expenses, volumes, and revenues, as well as the PSAF and net income on clearing balances, for each major service category.

Fees for Federal Reserve services must be approved by the product director for the respective service, by the Financial Services Policy Committee, and ultimately by the Board of Governors.[1]

The cost of float is estimated by applying the current federal funds rate to the level of float expected to be generated in the coming year. Estimates of income taxes and the return on capital are based on tax and financing rates derived using a model of the fifty largest U.S. bank holding companies. These rates are applied to the assets the Federal Reserve expects to use in providing priced services in the coming year.[2] The other components of the PSAF are derived from the budgets of the Reserve Banks and the Board: the imputed sales tax (based on budgeted outlays for materials, supplies, and capital); the imputed assessment for insurance by the Federal Deposit Insurance Corporation (FDIC) (based on

Table B.1

Revenue from Priced Services, 2002–2004

Millions of dollars

Service	2002	2003 (estimated)	2004 (budgeted)
Funds transfers and net settlement	58.8	51.3	59.7
Automated clearinghouse	71.8	68.6	74.8
Commercial checks	760.9	743.9	770.7
Book-entry securities transfers	23.8	21.8	22.3
Noncash collection	1.7	2.3	1.8
Special cash services	1.4	0.1	0.0
Total	**918.3**	**888.0**	**929.2**

1. The product directors are the first vice presidents at selected Reserve Banks with responsibility for day-to-day policy guidance over specific services. The Financial Services Policy Committee (FSPC) is responsible for the overall direction of financial services for the Federal Reserve Banks.

2. A portion of depository institution clearing balances held with the Federal Reserve for processing transactions is used as a funding source for priced-service assets. Equity is imputed at 5 percent of total assets to meet the FDIC definition of a well-capitalized institution in its classification for assessing insurance premiums. The equity financing rate, or pretax return on equity, is based on the average of the return-on-equity results of three economic models using data from the bank holding company model.

expected clearing balances and amounts deferred to depository institutions for items deposited for collection with the Reserve Banks); and the portion of the expenses of the Board of Governors directly related to providing priced services. ▪

Appendix C

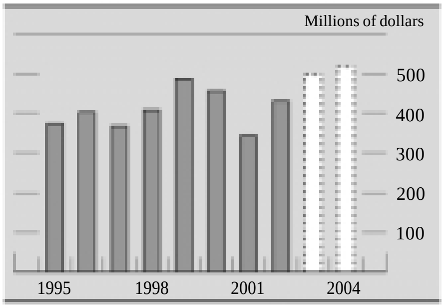
Currency Budget

Federal Reserve Banks issue new and fit currency to the public through depository institutions and destroy currency already in circulation as it becomes unfit or when a new design is issued. Each year, under authority delegated by the Board, the director of the Division of Reserve Bank Operations and Payment Systems orders new currency from the U.S. Department of Treasury's Bureau of Engraving and Printing (BEP). Upon reviewing the order, the BEP establishes billing rates for new currency, which Board staff uses to prepare the annual budget for new currency. Once the Board approves the new currency budget, it assesses each Federal Reserve Bank through an accounting procedure similar to that used in assessing the Banks for the Board's operating expenses.

Estimated currency expenditures for 2003 total $496.9 million, which is $13.4 million, or 2.6 percent, less than budgeted (table C.1). The underrun is due primarily to a shift in note production to calendar year 2004 as a result of changing demand. Budgeted currency expenditures for 2004 total $518.4 million, or 4.3 percent more than estimated 2003 expenses (chart C.1). The increase is due primarily to a larger calendar-year order.

Chart C.1

Federal Reserve Budget for New Currency, 1995–2004



NOTE. For 2003, estimated; for 2004, budgeted

Printing of Federal Reserve Notes

The Board ordered 9.1 billion new notes for the calendar year 2004 budget. The budget for printing the Board's order is $498.6 million, or 96.2 percent of the total 2004 new currency budget. For January through September 2004 (the portion of the federal government's 2004 fiscal year that falls within the 2004 calendar year), the BEP will produce 6.6 billion notes; for October through December 2004 (the remainder of the 2004 calendar year), it will produce another 2.4 billion notes.

Table C.1

Federal Reserve Budget for New Currency, 2003 and 2004

Thousands of dollars, except as noted

Item	2003 (estimated)	2004 (budgeted)	Percentage change
Printing of new Federal Resereve notes	477,002	498,604	4.5
Currency transportation	14,075	13,126	–6.7
Counterfeit-deterrence research	2,495	3,100	24.2
Reimbursement to the U.S. Treasury's Office of Currency Standards	3,329	3,539	6.3
Total cost of currency	**496,901**	**518,369**	**4.3**

Table C.2

Projected Federal Reserve Costs of Printing New Notes, by Type of Note, 2004

Type of currency	Number of notes (millions)	Percentage of total notes	Cost per thousand notes (dollars)	Total cost (thousands of dollars)
Unthreaded ($1s)	4,408.5	48.6	39.30	173,255
New Currency Design				
($5s)	673.1	7.4	52.10	35,069
($10s, $100s)	1,082.5	11.9	64.30	69,605
Series-2004 ($20s, $50s)	2,907.5	32.1	75.90	220,676
Average cost			54.90	
Total	**9,071.6**	**100**		**498,604**

The 2004 billing rates reflect four types of currency produced: unthreaded ($1s), New Currency Design (NCD) without color-shifting ink ($5s), NCD with color-shifting ink[1] ($10s and $100s), and Series-2004 with new and enhanced security features ($20s and $50s) (table C.2). During 2004, 19.3 percent of the notes produced will be NCD notes, 32.1 percent will be Series-2004 ($20s and $50s), and the remaining 48.6 percent will be unthreaded ($1s). The weighted average price that the Board will pay the BEP for producing notes in 2004 is $54.90 per thousand.

Currency Transportation

The currency transportation budget consists of funds for shipping new currency from the BEP to Reserve Banks and new and fit currency among the Reserve Banks. The 2004 currency transportation budget is $13.1 million, which is $949.0 thousand, or 6.7 percent less than the Board estimated for 2003. The 2004 budget for new currency shipments from the BEP is $10.8 million, which is 9.8 percent less than estimated 2003 expenses because the number of shipments required for the issuance of the Series-2004 $50 note will be less than the number required for the Series-2004 $20 note. The 2004 budget for currency shipments among Reserve Banks is $2.3 million, which is 10.8 percent more than estimated 2003 expenses. These shipments move currency from Reserve Bank offices with excess fit currency to offices that would otherwise require new currency from the BEP.

1. The color of the ink shifts from green to black as the viewing angle of the note changes.

Counterfeit-Deterrence Research

The 2004 budget for the counterfeit-deterrence program is $3.1 million. The funds will support the Federal Reserve System's participation in the Central Bank Counterfeit Deterrence Group (formerly known as the SSG-2), which operates under the auspices of the G-10 central bank governors to combat digital counterfeiting.

Treasury's€ Office of Currency Standards€

The 2004 budget to reimburse the Treasury for Office of Currency Standards (OCS) expenses is $3.5 million. The OCS develops Reserve Bank standards for the cancellation, destruction, and accountability of unfit currency and processes claims for the redemption of damaged or mutilated currency. ■

Appendix D

Expenses and Employment at the Board of Governors

Table D.1

Operating Expenses of the Board of Governors, by Division, Office, or Special Account, 2002–05

Thousands of dollars, except as noted

Division, office or special account	2002–03 (budgeted)	2002–03 (estimated)	2004–05 (budgeted)	Average annual percent change	
				2002–03 estimated compared with 2002–03 budgeted	2004–05 budgeted compared with 2000–03 estimated
Board Members	20,606	20,606	25,066	0.0	10.3
Secretary	11,513	11,513	11,521	0.0	0.0
Research and Statistics	69,599	69,599	75,803	0.0	4.4
International Finance	26,067	26,067	28,163	0.0	3.9
Monetary Affairs	21,730	21,730	23,056	0.0	3.0
Banking Supervision and Regulation	76,198	76,198	84,382	0.0	5.2
Consumer and Community Affairs	22,082	22,082	24,300	0.0	4.9
Legal	21,725	21,725	23,846	0.0	4.8
Reserve Bank Operations and Payment Systems	35,663	35,663	38,100	0.0	3.4
Staff Director for Management	11,468	11,468	16,105	0.0	18.5
Information Technology	83,144	83,144	90,832	0.0	4.5
Management	91,790	91,790	106,200	0.0	7.6
Special projects	18,367	18,367	20,504	0.0	5.7
IRM income account[1]	(37,799)	(37,799)	(39,306)	0.0	2.0
Total, Board operations	**472,153**	**472,153**	**528,570**	**0.0**	**5.8**
Extraordinary items	1,500	1,560	10,000	2.0	153.2
Office of the Inspector General	7,757	7,751	8,533	0.0	4.9

1. Income from various Board divisions for use of central information resources management (IRM) resources.

Table D.2

Positions Authorized at the Board of Governors, by Division, Office, or Special Account, 2002–05

Division, office, or special account	2002–03 (authorized)	2004–05 (budgeted)	Change
Board Members	79	78	–1
Secretary	53	50	–3
Research and Statistics	275	275	. . .
International Finance	120	116	–4
Monetary Affairs	68	68	. . .
Banking Supervision and Regulation	238	238	. . .
Consumer and Community Affairs	81	83	2
Legal	82	80	–2
Reserve Bank Operations and Payment Systems	139	139	. . .
Staff Director for Management	40	44	4
Information Technology[1]	262	262	. . .
Management	396	403	7
Concern[2]	31	31	. . .
Special Projects	2	1	–1
Subtotal	**1,866**	**1,868**	**2**
Reimbursable IT support[1]	27	27	. . .
Total, Board operations	**1,893**	**1,895**	**2**
Office of Inspector General	31	31	. . .

1. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

2. Summer intern and youth positions handled by the Management Division.

. . . Not applicable.

Table D.3

Operating Expenses of the Board of Governors, by Account Classification, 2002–05

Thousands of dollars, except as noted

Account Classification	2002–03 (budgeted)	2002–03 (estimated)	2004–05 (budgeted)	Average annual percent change	
				2002–03 estimated compared with 2002–03 budgeted	2004–05 budgeted compared with 2002–03 estimated
Personnel services					
Salaries	294,075	294,075	331,650	0.0	6.2
Retirement	28,822	28,822	29,026	0.0	0.4
Insurance	23,868	23,868	28,605	0.0	9.5
Subtotal	346,765	346,765	389,281	0.0	6.0
Goods and services					
Travel	14,039	14,039	13,808	0.0	–0.8
Postage and expressage	1,571	1,571	1,176	0.0	–13.5
Telecommunications	9,731	9,731	10,576	0.0	4.2
Printing and binding	2,518	2,518	2,963	0.0	8.5
Publications	2,044	2,044	1,381	0.0	–17.8
Stationery and supplies	2,756	2,756	2,292	0.0	–8.8
Software	12,994	12,994	14,539	0.0	5.8
Furniture and equipment	7,636	7,636	9,212	0.0	9.8
Rentals	816	816	748	0.0	–4.3
Books and subscriptions	2,123	2,123	2,005	0.0	–2.8
Utilities	5,587	5,587	5,916	0.0	2.9
Building repairs and alterations	4,896	4,896	5,861	0.0	9.4
Furniture reapirs and maintenance	5,255	5,255	3,569	0.0	–17.6
Contingency Processing Center expenses	400	400	896	. . .	49.6
Contractual professional services	39,557	39,557	41,437	0.0	2.3
Tuition, registration, and membership fees	3,810	3,810	4,405	0.0	7.5
Subsidies and contributions	1,739	1,739	1,285	0.0	–14.0
Depreciation	24,564	24,564	26,544	0.0	4.0
Other	(16,648)	(16,648)	(9,323)	0.0	–25.2
Subtotal	125,388	125,388	139,289	0.0	5.4
Total, Board operations	**472,153**	**472,153**	**528,570**	**0.0**	**5.8**
Extraordinary items	1,500	1,560	10,000	2.0	153.2
Office of the Inspector General	7,757	7,751	8,533	0.0	4.9

NOTE. Components may not sum to totals and may not yield percentages shown because of rounding.

. . . Not applicable.

Appendix E

Expenses and Employment at the Federal Reserve Banks

Table E.1

Operating Expenses of the Federal Reserve Banks, by District, 2003 and 2004

Thousands of dollars except as noted

District	2003 (budgeted)	2003 (estimated)	2004 (budgeted)	Percent change	
				2003 estimated compared with 2003 budgeted	2004 budgeted compared with 2003 estimated
Boston	167,228	164,078	161,412	–1.9	–1.6
New York	497,362	489,971	494,436	–1.5	0.9
Philadelphia	127,758	126,685	129,646	–0.8	2.3
Cleveland	146,181	152,810	163,398	4.5	6.9
Richmond	205,593	212,333	201,217	3.3	–5.2
Atlanta	297,992	298,209	323,960	0.1	8.6
Chicago	247,443	252,746	263,081	2.1	4.1
St. Louis	154,319	171,671	186,643	11.2	8.7
Minneapolis	147,318	137,071	135,191	–7.0	–1.4
Kansas City	174,960	175,655	166,730	0.4	–5.1
Dallas	162,630	165,430	166,540	1.7	0.7
San Francisco	286,523	268,921	274,112	–6.1	1.9
Total, all Districts	**2,615,307**	**2,615,581**	**2,666,367**	**0.0**	**1.9**
Special project					
Check standardization	14,627	11,757	. . .	19.6	–100.0
Total	**2,629,934**	**2,627,338**	**2,666,367**	**–0.1**	**1.5**

NOTE. Excludes capital outlays. Includes expenses budgeted by Federal Reserve Information Technology (FRIT) and the System's Office of Employee Benefits (OEB).

Components may not sum to totals and may not yield percentages shown because of rounding.

Operating expenses reflect all redistributions for support and allocations for overhead.

. . . Not applicable.

Table E.2

Employment at the Federal Reserve Banks, by District, and at FRIT and OEB, 2003 and 2004

Average number of personnel except as noted

District	2003 (budgeted)	2003 (estimated)	2004 (budgeted)	Amount change	
				2003 estimated compared with 2003 budgeted	2004 budgeted compared with 2003 estimated
Boston	1,270	1,260	1,152	–10	–108
New York	3,185	3,155	3,066	–30	–89
Philadelphia	1,241	1,230	1,206	–11	–25
Cleveland	1,348	1,387	1,409	39	22
Richmond	2,085	2,080	1,995	–5	–84
Atlanta	2,317	2,338	2,178	21	–159
Chicago	2,053	1,988	1,857	–65	–131
St. Louis	1,310	1,279	1,284	–31	4
Minneapolis	1,323	1,284	1,248	–39	–36
Kansas City	1,701	1,650	1,609	–51	–41
Dallas	1,446	1,437	1,365	–9	–72
San Francisco	2,328	2,278	2,182	–50	–96
Total, all Districts	**21,607**	**21,366**	**20,551**	**–241**	**–815**
Federal Reserve Information Technology	779	759	713	–20	–46
Office of Employee Benefits	36	36	37	0	1
Total	**22,422**	**22,160**	**21,300**	**–385**	**–860**

NOTE. See note to table E.1.

The term *average number of personnel* (ANP) describes levels and changes in employment at the Reserve Banks. ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who starts work on July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start on January 1 count as 1 ANP.

Table E.3

Operating Expenses of the Federal Reserve Banks, and of FRIT and OEB, by Operational Area, 2003 and 2004

Thousands of dollars except as noted

Operational area	2003 (budgeted)	2003 (estimated)	2004 (budgeted)	Percent change	
				2003 estimated compared with 2003 budgeted	2004 budgeted compared with 2003 estimated
Monetary and economic policy	257,610	259,744	270,789	0.8	4.3
Services to U.S. Treasury and other government agencies	309,691	307,286	347,982	–0.8	13.2
Services to financial institutions and the public	662,516	634,845	645,711	–4.2	1.7
Supervision and regulation	503,665	494,489	520,137	–1.8	5.2
Fee-based services to financial institutions	896,452	930,974	881,747	3.9	–5.3
Total	**2,629,934**	**2,627,338**	**2,666,366**	**–0.1**	**1.5**

Table E.4

Employment at the Federal Reserve Banks, and of FRIT and OEB, by Operational Area, 2003 and 2004

Average number of personnel except as noted

Operational area	2003 (budgeted)	2003 (estimated)	2004 (budgeted)	Amount change	
				2003 estimated compared with 2003 budgeted	2004 budgeted compared with 2003 estimated
Monetary and economic policy	865	870	858	5	–12
Services to U.S. Treasury and other government agencies	1,273	1,252	1,293	–21	41
Services to financial institutions and the public	2,858	2,819	2,795	–39	–24
Supervision and regulation	2,588	2,576	2,607	–12	31
Fee-based services to financial institutions	4,782	4,754	4,464	–28	–290
Support and overhead	10,056	9,889	9,283	–167	–606
Total	**22,422**	**22,160**	**21,300**	**–262**	**–859**

Table E.5

Salary Administration Expenses of the Federal Reserve Banks, by District, and of FRIT and OEB, for Officers and Employees, 2004

Thousands of dollars except as noted

District	Salary base				Variable pay (2004 budgeted minus 2003 estimated)			Total	Percent (total)
	Merit	Promotions and reclassifications	Market adjustments	Percent (subtotal)	Cash awards	Incentive payments	Percent (subtotal)		
Boston	2,254	704	302	4.3	–27	–222	–0.3	3,011	4.0
New York	8,421	1,448	1,120	4.2	393	–85	0.1	11,296	4.3
Philadelphia	1,833	452	167	3.6	–34	36	0.0	2,453	3.6
Cleveland	2,093	366	8	3.3	–56	69	0.0	2,479	3.3
Richmond	3,459	1,136	629	4.6	105	40	0.1	5,369	4.7
Atlanta	3,345	979	117	3.7	42	90	0.1	4,573	3.8
Chicago	3,211	850	436	3.8	113	308	0.4	4,917	4.2
St. Louis	2,246	381	72	3.7	–65	106	0.1	2,740	3.8
Minneapolis	1,541	308	0	2.8	112	38	0.2	1,999	3.0
Kansas City	2,646	1,588	50	4.6	–124	116	0.0	4,276	4.6
Dallas	2,163	186	237	3.5	243	–99	0.2	2,730	3.7
San Francisco	3,714	1,021	123	3.4	453	789	0.9	6,099	4.2
Total, all Districts	**36,925**	**9,419**	**3,261**	**3.9**	**1,154**	**1,185**	**0.2**	**51,944**	**4.1**
Federal Reserve Information Technology	1,380	277	0	2.8	103	18	0.2	1,778	3.0
Office of Employee Benefits	201	0	18	5.8	0	23	0.6	242	6.4
Total	**38,506**	**9,696**	**3,279**	**3.8**	**1,257**	**1,226**	**3.7**	**53,964**	**4.0**

Salary administration: Represents the budgeted funds that are available to increase compensation to officers and employees in the coming year. It does not include adjustments for changes in staffing levels, turnover and lags in hiring, and overtime.

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

Promotions and reclassifications: The amount of budgeted salary expense that reflects the cumulative effect of salary increases for individuals as a result of grade promotions and reclassifications resulting from a job evaluation.

Market adjustments: 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 represents payments for the achievement of predetermined goals.

Percent: The total of the stated payments as a percentage of total salary and other personnel expense.

Table E.6

Capital Outlays of the Federal Reserve Banks, by District, and of FRIT and OEB, 2003 and 2004

Thousands of dollars except as noted

District	2003 (budgeted)	2003 (estimated)	2004 (budgeted)	Percent change	
				2003 estimated compared with 2003 budgeted	2004 budgeted compared with 2003 estimated
Boston	24,909	19,903	20,140	–20.1	1.2
New York	56,454	44,526	56,379	–21.1	26.6
Philadelphia	15,804	15,067	10,178	–4.7	–32.5
Cleveland	21,609	31,855	29,086	47.4	–8.7
Richmond	17,522	39,042	22,005	122.8	–43.6
Atlanta	20,809	20,895	12,633	0.4	–39.5
Chicago	89,437	29,426	77,219	–67.1	162.4
St. Louis	36,709	17,929	29,375	–51.2	63.8
Minneapolis	6,330	7,488	3,766	18.3	–49.7
Kansas City	39,251	31,065	22,204	–20.9	–28.5
Dallas	56,271	43,580	86,151	–22.6	97.7
San Francisco	45,383	34,127	29,709	–24.8	–12.9
Total, all Districts	**430,488**	**334,904**	**398,844**	**–22.2**	**19.1**
Federal Reserve Information Technology	60,870	71,387	67,408	17.3	–5.6
Office of Employee Benefits	. . .	225	1,150	. . .	. . .
Total	**491,358**	**406,516**	**467,402**	**–17.3**	**15.0**

. . . Not applicable.

Table E.7

Capital Outlays of the Federal Reserve Banks, by Category, 2003 and 2004

Thousands of dollars except as noted

Category	2003 (budgeted)	2003 (estimated)	2004 (budgeted)	Percent change	
				2003 estimated compared with 2003 budgeted	2004 budgeted compared with 2003 estimated
Building-related projects and facility improvements	268,678	170,360	249,884	–36.6	57.7
Security enhancements	49,213	39,157	53,950	–20.4	25.7
Information technology	55,207	55,169	61,566	–0.1	0.1
Payment system improvement initiatives	108,816	131,657	97,072	21.0	–17.3
Miscellaneous[1]	9,444	10,172	4,930	7.7	–7.2
Total	**491,358**	**406,516**	**467,402**	**–17.3**	**15.0**

NOTE. Includes outlays from FRIT and OEB.

1. Includes other equipment purchases.

Maps of the

Federal Reserve System

The Federal Reserve System

Legend

Both pages

- ■ Federal Reserve Bank city
- Board of Governors of the Federal Reserve System, Washington, DC

Facing page

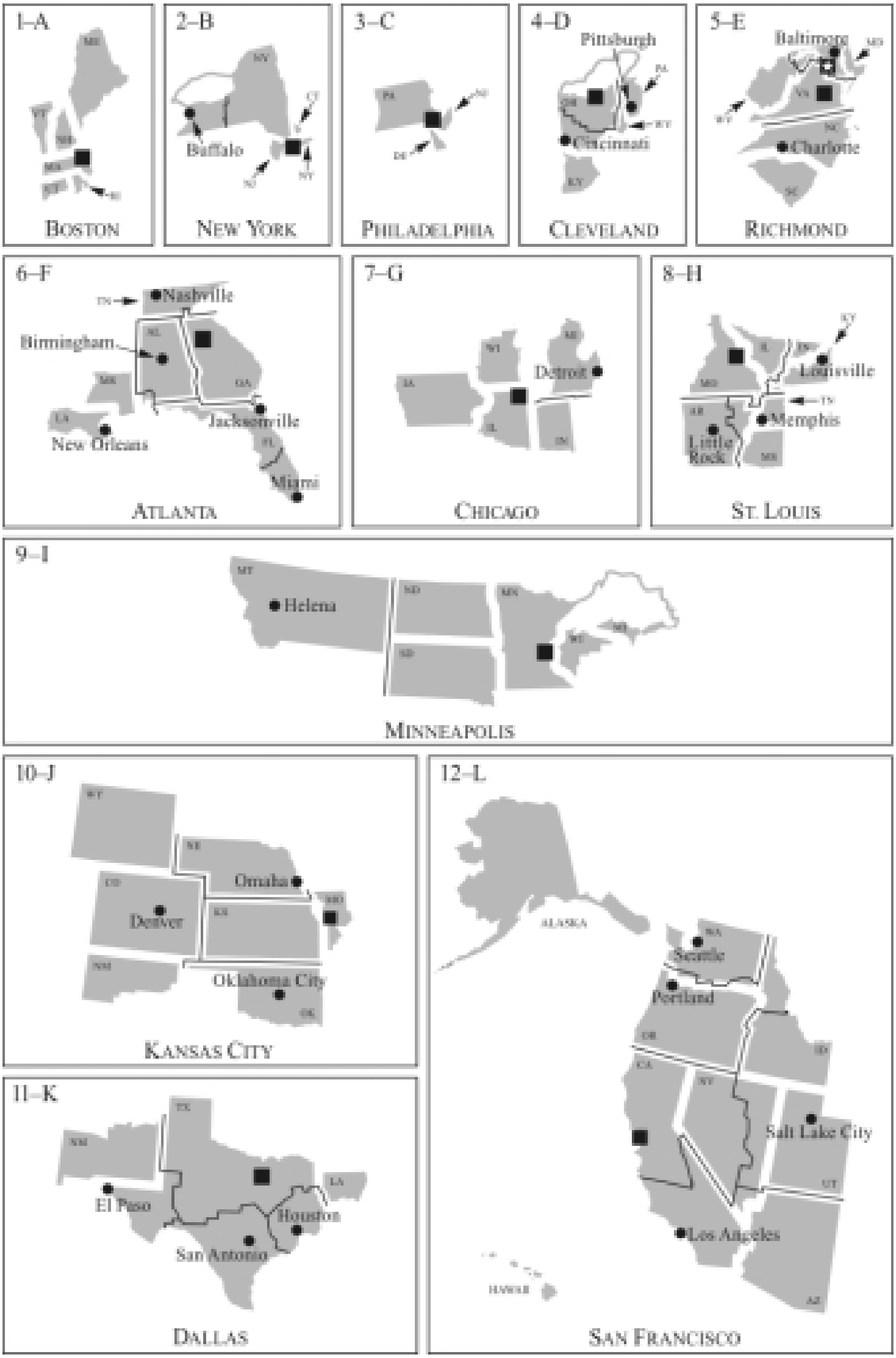
- • Federal Reserve Branch city
- — Branch boundary

Note

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: The New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The maps show the boundaries within the System as of year-end 2003.


1–A
Boston
2–B
Buffalo
New York
3–C
Philadelphia
4–D
Pittsburgh
Cincinnati
Cleveland
5–E
Baltimore
Charlotte
Richmond
6–F
Nashville
Birmingham
Jacksonville
New Orleans
Miami
Atlanta
7–G
Detroit
Chicago
8–H
Louisville
Memphis
Little Rock
St. Louis
9–I
Helena
Minneapolis
10–J
Omaha
Denver
Oklahoma City
Kansas City
11–K
El Paso
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Dallas
12–L
Seattle
Portland
Salt Lake City
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