



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

DATE: December 16, 2010

To: Board of Governors

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

FROM: Staff <sup>1</sup>

SUBJECT: 2011 Budget <sup>2</sup>

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**Action Requested**

Staff requests that the Board approve the following:

1. A \$470.9 million operating budget for 2011, which includes 2,331 authorized positions <sup>3</sup>
2. A \$5.5 million single-year capital budget for 2011
3. An increase of \$19.7 million in multi-year capital funds

**Table 1. Summary of 2011 Budget Components**  
\$ in millions (where applicable)

Component	Current 2010 OpPlan	Proposed 2011 Budget	Increase	% Increase
Operating	\$431.8	\$470.9	\$39.1	9.0%
Single-year Capital	\$8.4	\$5.5	-\$2.9	-34.6%
Positions	2,210	2,331	121	5.5%

Component	Current Life-cycle Budget	Proposed 2011 Budget	Increase	% Increase
Multi-year Capital	\$38.8	\$58.5	\$19.7	50.8%

**Summary**

Last year, the Board moved from a two-year budget to a single-year budget because of the changes in demands placed on the Board during the financial crisis and the potential impact of

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<sup>1</sup> Stephen Malphrus, Nathan Sheets, H. Fay Peters, Don Spicer, William Mitchell, and Chris Fields.

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

<sup>3</sup> In response to President Obama's proposed two-year pay freeze for all civilian federal workers, the Board's 2011 budget does not include funding for merit increases, salary equity adjustments (except promotions), or salary structure changes for officers and staff. Once Congress has acted on the President's recommendation, the Board will evaluate whether any adjustments to the salary budget are required.

regulatory restructuring proposals then being debated in Congress. Given the continuing demands on the Board to implement the requirements contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and lessons learned through the financial crisis, we believe that continuing to develop a one-year budget for 2011 and the foreseeable future is the proper course of action for the Board. Staff anticipates, however, that changes to the 2011 budget may become necessary once the full impact of the legislation becomes clearer in the coming months. We will subject the 2011 budget to a thorough review at mid-year, consistent with practices implemented in 2010, and submit requests for budgetary changes to the Board, as required. Staff also anticipates completing the review and revisions to the Board's strategic plan in 2011 and may identify additional budgetary requirements resulting from that process.

As part of the 2011 budget process, the Strategic Planning Group (SPG) reviewed budget requests submitted by divisions and offices, to include proposed initiatives and potential savings.<sup>4</sup> The SPG co-chairs subsequently met with the Administrative Governor, the responsible oversight governor, and division and office directors to further review the submissions. The final budget requests included in this memorandum represent senior management's collective judgment of the resources necessary to continue the Board's current operations, meet the known requirements of the Dodd-Frank Act, and fund the highest priority new initiatives. The operating budget (including new initiatives and proposed savings) represents an 9.0 percent increase over the estimated 2010 expenses. The capital budget, including new initiatives, represents a 34.6 percent decrease in single-year capital funds, and a 50.8 percent increase in total multi-year capital project costs. As discussed later in this memorandum, the increase in multi-year capital projects is driven mainly by increased space requirements and infrastructure-related projects, such as refurbishment of the elevators in the Eccles Building and installation of heating and cooling units in offices at the New York Avenue Building.

### **Current Services Budget**

The proposed operating budget of \$470.9 million includes \$449.6 million to fund the Board's ongoing operations (the current services budget). The budget reflects growth in personnel services expenses as well as increased costs for goods and services. Growth in personnel services includes the full-year impact of positions added in 2010, including the creation of the new Office of Financial Stability Policy and Research.<sup>5</sup> Other personnel services in the 2011 budget include funding for increases in benefit liabilities as determined by the Federal Reserve System's actuaries, and increases in the accrued leave liability. In addition, personnel costs reflect an increase in the targeted cash award pool for staff of 1 percentage point; an increase in the health care stipend by \$10 per pay period for single and family coverage; and an increase in the academic assistance cap from \$9,000 to \$12,200. Growth in the cost of goods and services is driven by the loss of \$1.4 million in lease income from the tenant in the New York Avenue building, as well as increases in anticipated expenditures for travel and furniture and equipment.

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<sup>4</sup> Nathan Sheets and Stephen Malphrus co-chaired the SPG. The other members of the SPG were Jennifer Johnson, Don Spicer, Anna Alvarez-Boyd, Michell Clark, Katherine Wheatley, Donald Hammond, Sharon Mowry, Rosanna Pianalto, Janice Shack-Marquez, and William Spaniel.

<sup>5</sup> The Board established the Office of Financial Stability Policy and Research in 2010 to develop and coordinate the staff's work program in the area of financial stability. The office reports to the directors of the three research divisions and other directors as the Board may deem appropriate.

These increases are partially offset by \$10.5 million in savings from the Survey of Consumer Finance Data, which is conducted only every three years.

### **New Initiatives and Proposed Savings**

During the budget formulation process, the SPG reviewed and discussed more than 50 initiatives and savings submitted by the Board’s divisions and offices. The initiatives included requirements stemming from the Dodd-Frank Act, office space needs, technology projects, staffing requests to meet increased work demands related to the financial crisis, and infrastructure support. The SPG also reviewed and discussed proposed savings expected to result from the transfer of responsibilities to the Consumer Financial Protection Bureau (the Bureau).<sup>6</sup> As a result of the SPG discussions, as well as the Administrative Governor’s meetings with division and office directors and his or her oversight governor, the directors were able to identify additional opportunities to reduce proposed initiatives by delaying planned hiring until 2012 or by implementing alternative solutions to meet workload requirements. The proposed 2011 budget includes \$22.3 million in new initiatives, partly offset by \$1.0 million in proposed savings from the transfer of staff to the Bureau. Table 2 breaks out the costs associated with the proposed initiatives and savings. As the table shows, almost half of the costs for proposed initiatives are for personnel expenses for the 121 new positions included in the 2011 budget proposal. (See position discussion below.) The initiatives also include \$5.1 million in operating funds and \$8.3 million in multi-year capital funds for the build-out, furnishing, and leasing (for a limited period of time in 2011) of additional office space to accommodate new positions anticipated for 2011 and 2012 (including the OIG) as well as potential future staff growth; provide space for "right-sizing" current offices; and begin relocating divisions and offices in preparation for the planned renovation of the Martin Building. Approximately \$8.3 million, or 39.2 percent, of the total initiatives and savings, is related to the direct cost of increased responsibilities associated with the Dodd-Frank Act; \$3.6 million, or 17.0%, is related to actions resulting from the financial crisis or other regulatory reform requirements.

**Table 2.**  
**Initiatives & Savings by Account Classification**

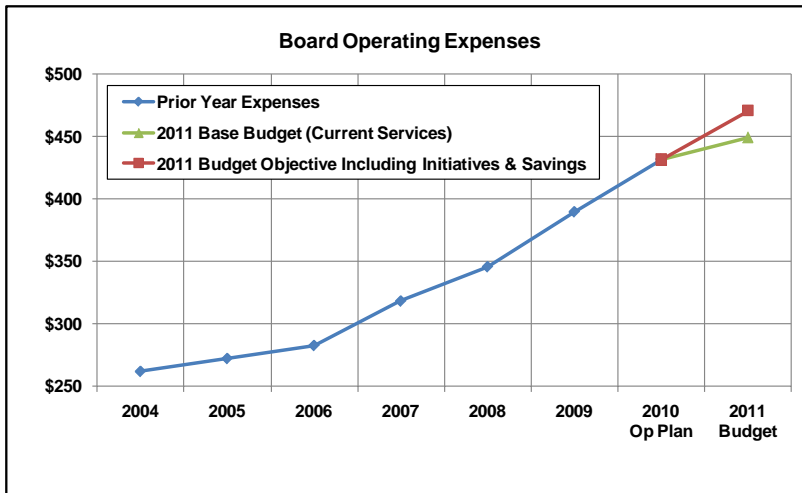
<b>Account Classification</b>	<b>2011 Proposed Initiatives (Net of Savings)</b>
Salaries	\$ 10.1
Rentals	2.8
Contractual Profess Srvc	2.3
Furniture & Equip	2.1
IT User Charge	1.6
Retirement/Thrift Plans	1.2
Travel Expenses	0.8
Other	0.4
<b>TOTAL</b>	<b>\$ 21.3</b>

*Components may not sum to totals shown because of rounding.*

Table 3 shows the operating expense growth for the Board since 2004. The 2011 amounts break out increases in the base budget and increases including proposed initiatives and savings. Attachment 1 shows the proposed 2011 operating budget by division, office, or special account; Attachment 2 shows the same information by accounting classification.

<sup>6</sup> Title X of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* established the Bureau of Consumer Financial Protection (Bureau) and requires the Board to fund the Bureau from the combined earnings of the Federal Reserve System. The new Bureau regulates consumer financial products and services in compliance with federal law.

**Table 3. Expense Growth Trend**  
\$ in millions



## Positions

For the 2011 budget period, staffing requests resulted in a net increase of 121 positions. This increase brings total authorized positions to 2,331 and represents a 5.5 percent increase over current total authorized positions and a 6.4 percent increase over the authorized positions at the start of 2010. Table 4 shows the current and requested positions by division, office, or special account, and Table 5 shows the position growth over the past eight years.

Divisions and offices originally requested approximately 200 positions to support proposed initiatives. Based on questions posed by the SPG, the Administrative Governor, and the oversight governors during budget discussions, divisions and offices reevaluated assumptions regarding their ability to effectively hire and assimilate a large number of new staff during the coming year. As a result of the additional review, division and office directors reduced their request to a total of 121 positions for 2011. The proposed increase includes an addition of 146 new positions for 10 divisions and offices, partially offset by a decrease of 25 positions in the Division of Consumer and Community Affairs (C&CA) that are expected to be transferred to the Bureau. Forty-six of the total requested positions, representing 38 percent of the net increase, are needed to implement requirements of the Dodd-Frank Act; other needs, as discussed more fully below, include implementing lessons learned from the financial crisis and meeting infrastructure-related requirements. Hiring for the proposed positions will be phased in during 2011, although divisions and offices expect a majority of the positions to be filled in the first half of the year. Attachment 3 provides the number and purpose of each position by division and office.

Although the division and office directors reduced their position requests for the coming year, they noted that fully implementing new legislative mandates and meeting other workload requirements will likely necessitate hiring an additional 66 positions deferred until 2012. Management plans to review each division's progress in filling its staffing needs as part of the 2011 mid-year review and 2012 budget planning process and recognizes that requests to accelerate hiring may be warranted. The impact of adding 66 positions, coupled with the full-year impact of the 121 positions proposed for 2011, will be an incremental increase of \$8.0 million to the 2012 budget.

**Table 4. Positions and Employment**

Division, Office, or Special Account	Authorized Positions		2011 Positions Requested	Total Authorized & Requested Positions
	As of 1/1/2010	As of 11/15/2010		
Board Members	88	88	1	89
Staff Director	48	48	1	49
Secretary	51	51	0	51
Research & Statistics	296	296	28	324
International Finance	115	115	9	124
Monetary Affairs	95	103	9	112
Financial Stability, Policy & Research	0	12	0	12
Banking Supervision & Regulation	283	283	45	328
Consumer & Community Affairs	120	120	(25)	95
Legal	86	86	8	94
Res. Bank Ops. & Payment Sys.	138	138	13	151
Information Technology <sup>1</sup>	353	353	16	369
Management Division <sup>2</sup>	517	517	16	533
<b>Total, Board Operations</b>	<b>2,190</b>	<b>2,210</b>	<b>121</b>	<b>2,331</b>

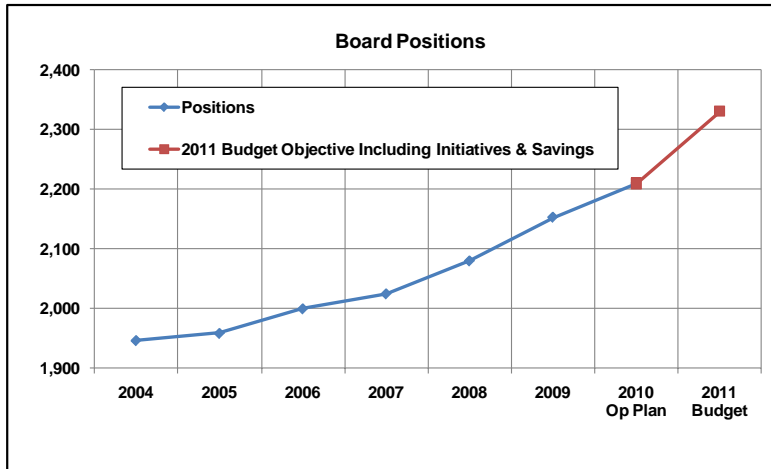
Note:

Interns are not included in the numbers for positions or employment.

<sup>1</sup> Information Technology provides reimbursable support to other agencies, such as the Federal Financial Institutions Examination Council, equivalent to 36 full-time positions.

<sup>2</sup> Management Division includes 31 positions for cooperative education, worker trainee, and student aide programs that assist divisions Boardwide; the division's total position count also includes 163 law enforcement personnel.

**Table 5. Position Growth Trend**



## **Capital Budget**

The Board's capital budget incorporates single-year and multi-year components. Single-year capital includes purchases or projects planned for completion in the 2011 budget cycle, such as

hardware (file servers) and Storage Area Network redesign; multi-year includes capital projects that will be completed over multiple budget cycles, such as the Martin Building renovation and visitors center design.

The proposed single-year capital budget of \$5.5 million includes \$4.2 million for routine equipment replacements and renovations, such as hardware for enterprise-wide infrastructure, and \$1.3 million to fund specific initiatives. New single-year initiatives include file servers and other automation-related purchases primarily in the Division of Information Technology (IT), as well as an armored automobile for the Chairman’s Protective Services Unit. Table 6 summarizes the single-year capital requests by division, office, or special account.

**Table 6. Single-Year Capital**  
\$ in millions

Single-Year Capital by Division, Office, or Special Account	Base	Initiatives	Total Single- Year Capital Budget
Board Members	\$ -	\$ -	\$ -
Staff Director for Management	0.2	0.2	0.4
Secretary	-	-	-
Research & Statistics	0.6	-	0.6
International Finance	-	-	-
Monetary Affairs	-	-	-
Office of Financial Stability Policy & Research	-	-	-
Banking Supervision & Regulation	0.8	-	0.8
Consumer & Community Affairs	-	-	-
Legal	-	-	-
Reserve Bank Operations & Payment Systems	-	-	-
Information Technology	1.5	1.0	2.6
Management Division	1.1	0.1	1.2
<b>BOARD TOTAL</b>	<b>\$ 4.2</b>	<b>\$ 1.3</b>	<b>\$ 5.5</b>

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

Table 7 provides information associated with multi-year capital projects. A significant number of the projects address the Board’s space needs. In addition to the request for increased funding of \$3.0 million for the Martin Building renovation and visitors and conference center design, new project requests include \$8.3 million for building out and equipping additional leased office space; \$4.3 million for a training center and firing range to support the Board’s Law Enforcement Unit (LEU); and an additional \$1.3 million for building out, equipping, and implementing security requirements for the new leased warehouse.

The Board does not have enough available office space to accommodate expected growth due to regulatory reform and workload increases associated with the financial crisis; furthermore, it is at significant risk of not having adequate space to meet short-term requirements, including the projected growth of the OIG. Although the Board recently reclaimed space at New York Avenue that was previously leased to U. S. General Services Administration, growth continues to exceed available space. The OIG, in particular, has experienced significant growth due to mandated work associated with failed institutions supervised by the Federal Reserve. Management Division staff are also working to ensure that space planning incorporates the efficient positioning of divisions and offices to minimize disruptions during, and optimize staff locations

after, the planned renovation of the Martin Building. The capital funding requested in the budget includes the estimated costs (lease, IT costs, build-out, furniture, etc.) associated with the Board acquiring up to an additional 145,000 square feet at or within close proximity to our current space at 1850 K Street. This request would cover current and anticipated short-term needs. However, the amount requested may still not be sufficient to cover the full amount of swing space needed for the renovation. The requested amount assumes an occupancy date for a portion of the total space beginning in November 2011.

In the 2010 mid-year budget process, the Board approved a request to lease a new warehouse to better accommodate the Board’s storage and supply needs. Staff is now seeking approval to expand the new warehouse space footprint to include a training facility and firing range to support LEU operations. While all Reserve Banks have firing ranges at their facilities, the Board spends approximately \$90,000 annually for training LEU officers at third party firing ranges. This initiative would allow the function to meet critical staff training requirements that cannot be met in the Board’s current facilities, including mandated Law Enforcement, Safety, and Occupational Safety and Health Administration training programs.

**Table 7. Multi-Year Capital**  
\$ in millions

Multi-year Capital Projects	Project Life Budget	Initiatives	Total Multi-Year Capital
eOPF <sup>1</sup>	\$ 0.5	\$ 0.3	\$ 0.8
Data center renovation	6.5	-	6.5
Eccles switchgear replacement	8.9	-	8.9
Martin north garage repairs	2.6	-	2.6
Martin renovation & visitors center design	12.4	3.0	15.4
NYA perimeter security	1.2	0.2	1.4
NYA reconfiguration design	0.3	-	0.3
NYA reconfiguration construction	5.0	-	5.0
Eccles window upgrades	1.3	-	1.3
Warehouse space	0.1	1.3	1.4
Eccles elevators	1.2	0.8	2.0
NYA induction units installation	-	0.4	0.4
Third office space lease	-	8.3	8.3
Law enforcement training center & firing range	-	4.3	4.3
<b>BOARD TOTAL</b>	<b>\$ 39.9</b>	<b>\$ 18.5</b>	<b>\$ 58.5</b>

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

<sup>1</sup> Electronic Official Personnel Folders (eOPF) is a federal agency e-Gov initiative that will be used to transition the Board’s personnel records to a digital environment, which is necessary for the Board to continue with federal benefits and programs.

## **Budget Risks**

The SPG and division and office directors identified several risks for the 2011 budget. The primary concern for the coming year is the Board’s ability to attract and retain qualified staff to meet the challenges created by passage of the financial reform legislation and continue to meet demands of ongoing work requirements. The Board will be challenged to hire staff in increasingly competitive markets in the federal and private sectors, as well as academia.

Divisions and offices will also be challenged to effectively absorb a large number of positions in a short time period, and projected growth by the other federal financial regulators and the new Bureau will require the Board to act quickly to recruit the most qualified applicants. For staff who have worked long hours dealing with the financial crisis and must now take on the added requirements of the Dodd-Frank Act, work-life balance may become an issue. In addition, despite the SPG's best efforts, it is uncertain whether the proposed initiatives will provide sufficient growth in personnel, technology, space, and other infrastructure support to supply the resources necessary for the Board's increased responsibilities. The SPG also recognizes the uncertainty of roles and staffing requirement of C&CA as a result of the creation of the Bureau and the unknown impact that external audits and reviews may have on the Board and System.

Attachments



## Attachment 1

### 2010 Operating Budget by Division, Office, or Special Account \$ in millions

Division, Office, or Special Account	2010 Opplan	Current Services	Initiatives	Savings	Total Operating Budget	Increase Over 2010 Opplan
Board Members	\$ 17.1	\$ 18.2	\$ 0.2	\$ -	\$ 18.4	7.9%
Staff Director	11.3	11.3	0.1	-	11.5	1.7%
Secretary	8.1	8.5	-	-	8.5	4.5%
Research & Statistics	53.7	54.9	2.0	-	56.9	6.0%
International Finance	19.9	20.9	0.9	-	21.8	9.6%
Monetary Affairs	22.9	23.2	1.3	-	24.5	7.0%
Office of Financial Stability Policy & Research	-	2.7	-	-	2.7	
Banking Supervision & Regulation	67.7	68.2	6.1	-	74.3	9.7%
Consumer & Community Affairs	25.9	27.2	-	(1.0)	26.2	1.1%
Legal	17.7	18.4	1.1	-	19.5	9.8%
Reserve Bank Ops & Payment Systems	32.9	33.1	1.9	-	35.0	6.5%
Information Technology	61.0	63.2	2.9	-	66.1	8.3%
Management Division	90.0	99.1	7.5	-	106.6	18.4%
Information Technology Income	(28.6)	(27.1)	(1.6)	-	(28.7)	0.3%
Residual Retirement & Insurance	9.9	12.9	-	-	12.9	29.9%
Special Projects	11.4	14.3	-	-	14.3	26.0%
Savings & Reallocation	(0.1)	-	-	-	-	-100.0%
<b>BOARD SUB-TOTAL</b>	<b>\$ 420.8</b>	<b>\$ 449.1</b>	<b>\$ 22.3</b>	<b>\$ (1.0)</b>	<b>\$ 470.4</b>	<b>11.8%</b>
Extraordinary Items <sup>1</sup>	11.0	0.5	-	-	0.5	-95.5%
<b>BOARD TOTAL</b>	<b>\$ 431.8</b>	<b>\$ 449.6</b>	<b>\$ 22.3</b>	<b>\$ (1.0)</b>	<b>\$ 470.9</b>	<b>9.0%</b>

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

<sup>1</sup> Extraordinary Items includes amounts budgeted and expensed for the Survey of Consumer Finances.

**2010 Operating Budget by Account Classification**  
\$ in millions

Account Classification	Current Services	Initiatives	Savings	Total Operating Budget	Increase Over 2010 Opplan
Salaries	\$ 268.2	\$ 11.0	\$ (0.9)	\$ 278.3	8.4%
Retirement/Thrift Plans	36.8	1.3	(0.1)	37.9	9.3%
Employee Insurance	25.9	0.8	(0.1)	26.6	13.6%
Sub-total Personnel Services	\$ 330.8	\$ 13.1	\$ (1.0)	\$ 342.9	8.9%
Postage & Shipping	0.6	0.2	-	0.7	92.2%
Travel Expenses	12.1	0.8	-	12.9	25.8%
Telecommunications	4.9	-	-	4.9	10.1%
Printing & Binding	2.2	-	-	2.2	20.1%
Publications	0.8	-	-	0.8	56.5%
Stationery & Suppls	1.6	-	-	1.6	12.7%
Software	9.9	0.1	-	10.0	11.3%
Furniture & Equip	6.5	2.1	-	8.7	85.2%
Rentals	7.7	2.8	-	10.5	41.4%
Books & Subscriptions	1.0	-	-	1.0	2.3%
Utilities	4.0	-	-	4.0	1.2%
Repairs & Alterations Bldg	3.0	0.2	-	3.2	60.5%
Repairs & Maintenance F&E	2.4	-	-	2.4	5.9%
ARC Expenses/R&S	0.9	-	-	0.9	1.2%
ARC Income/R&S	(0.9)	-	-	(0.9)	1.2%
CPC Expenses	1.3	-	-	1.3	1.2%
Contractual Profess Srvc	41.3	2.3	-	43.5	11.4%
Interest Expense	-	-	-	-	0.0%
Tuition / Regist / Members	3.8	0.1	-	3.8	8.1%
Subsid & Contrib	0.8	-	-	0.8	-30.2%
All Other	4.8	-	-	4.8	9.7%
Budget Realloc & Savings	-	-	-	-	-100.0%
Depreciation/Amortization	16.8	0.7	-	17.4	10.1%
Income	(7.3)	-	-	(7.3)	-16.1%
IT User Charge	27.0	1.6	-	28.7	0.3%
IT Income	(27.1)	(1.6)	-	(28.7)	0.3%
Sub-Total Goods & Services	\$ 118.3	\$ 9.2	\$ -	\$ 127.5	20.5%
BOARD SUB-TOTAL	\$ 449.1	\$ 22.3	\$ (1.0)	\$ 470.4	11.8%
Extraordinary Items	0.5	-	-	0.5	-95.5%
<b>BOARD TOTAL</b>	<b>\$ 449.6</b>	<b>\$ 22.3</b>	<b>\$ (1.0)</b>	<b>\$ 470.9</b>	<b>9.0%</b>

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

## Positions and Purpose by Division

Division	Number of Positions	Purpose
BDM	1	communication strategist position to modernize its information dissemination strategy to include social media
OSD	1	support the establishment of an Office of Minority and Women Inclusion at the Board as required under the Dodd-Frank Act
R&S	14	economists and support staff to address lessons learned in the financial crisis, participate and comment on research policy studies, and focus on systemic risk
R&S	14	economists and support staff to play a role in shaping regulations resulting from the Dodd-Frank Act, lead efforts in the work of the Financial Stability Oversight Committee[1], and revamp data collection
IF	4	economists to address increased demand resulting from the financial crisis
IF	5	economists and support staff to address requirements of the Dodd-Frank Act
MA	7	economists and support staff to meet requirements of the Dodd-Frank Act and alleviate the pressure of workloads from the financial crisis
MA	1	senior records project manager to meet increasing demands for Freedom of Information Act requests
MA	1	economist to prepare regular materials regarding the evolution of private sector forecasts
BS&R	11	enhance the effectiveness of institutional supervision and surveillance of Large Institution Supervisory Coordination Committee portfolio
BS&R	6	acquire thrift supervision knowledge to address supervisory authority for all thrift holding companies
BS&R	4	develop policies that are required under the Dodd-Frank legislation relating to risk retention, appraisals, capital, along with supporting financial research relating to market risk, treasury function, and credit securitization
BS&R	4	address the shortage of quantitative experts for the oversight of the Basel 2 (B2) implementation process, the depth and quality of B2-related exams, as well as the interpretation of B2 approval standards
BS&R	20	address lessons learned and delayed activities due to the financial crisis
C&CA	-25	result of certain functions transferring to the Bureau
Legal	8	develop rules and participate in studies related to the Dodd-Frank Act
RBOPS	13	new responsibilities related to oversight of systemically important payment, clearing, and settlement systems
IT	16	support the divisions' and offices' IT-related initiatives
MGT	10	infrastructure needed to support growth Boardwide
MGT	3	support space leasing requirements and the design effort for the visitor and conference center
MGT	3	support increased workload in the Procurement section and meet requirements of the Dodd-Frank Act
<b>Total</b>	<b>121</b>	