

Annual Report: Budget Review



Board of Governors of the Federal Reserve System

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Introduction

The Federal Reserve System—the nation’s central bank—consists of the Board of Governors in Washington, D.C., the 12 Federal Reserve Banks with their 24 branches distributed throughout the nation, the Federal Open Market Committee (FOMC), and three advisory councils—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 System has numerous, varied responsibilities, including:

- conducting the nation’s monetary policy by influencing the monetary and credit conditions in the economy in the pursuit of maximum employment, stable prices, and moderate long-term interest rates;
- supervising and regulating banking institutions to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers;
- maintaining the stability of the financial system and containing systemic risk that may arise in financial markets; and
- providing financial services to depository institutions, the U.S. government, and foreign official institutions.

The Federal Reserve System plays a major role in the nation’s payment system. The Federal Reserve Board issues currency to the Reserve Banks. The Re-

serve Banks distribute currency and coin; process Fedwire, automated clearinghouse, and securities transfers; and collect checks. In addition, the 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 Federal Reserve System: Purposes & Functions* (available at www.federalreserve.gov/pf/pf.htm).

Summary of 2009 Income and Expenditures

In carrying out its responsibilities in 2009, the Federal Reserve System incurred \$2.9 billion in net expenses. Total spending of \$4.0 billion was offset by \$1.1 billion in revenue from priced services, claims for reimbursement, and other income. Total 2009 expenses were \$43.0 million, or 1.1 percent, less than the amount budgeted for 2009 (table I.1).

Total Reserve Bank income in 2009 was \$54.5 billion. The major sources of income were interest earnings from the portfolio of U.S. government securities (\$24.9 billion) and federal agency mortgage-backed securities (\$20.4 billion) in the System Open Market Account. Earnings in excess of expenses, dividends, and surplus are transferred to the U.S. Treasury—in 2009, a total of \$47.4 billion.¹ (These net earnings are

1. For more detailed information on the income and the distribution of income, refer to the *Federal Reserve Banks Combined Financial Statements* for 2009 (available at www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm).

Table I.1 Total Expenses of the Federal Reserve System, 2009

Millions of dollars, except as noted

	Budgeted	Actual	Variance	
			Amount	Percent
Reserve Banks	3,086.2	3,142.5	56.4	1.8
Board.....	366.7	396.8	30.1	8.2
Currency.....	631.5	502.1	-129.4	-20.5
Total System expenses	4,084.4	4,041.4	-43.0	-1.1

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

treated as receipts in the U.S. budget accounting system when received and as anticipated earnings projected by the Office of Management and Budget in the U.S. budget.)

Operational Areas

In 2009, 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 pursuit of the nation's objectives of maximum employment, stable prices, and moderate long-term interest rates. In 2009, very difficult economic and financial conditions continued to pose unusual challenges for the conduct of monetary policy. To help Federal Reserve policymakers address these challenges, four of the regularly scheduled meetings of the Federal Open Market Committee (FOMC) that were held in

2009 were expanded so that all eight scheduled meetings lasted two days, and the FOMC held three additional meetings by conference call.

To help stabilize financial markets and support the economy, the Board and the FOMC continued to operate a number of unusual credit and liquidity facilities in 2009. These facilities included the Term Auction Facility, liquidity swap arrangements with foreign central banks, the Primary Dealer Credit Facility, the Term Securities Lending Facility, the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Money Market Investor Funding Facility, the Commercial Paper Funding Facility, and the Term Asset-Backed Securities Loan Facility.

To promote economic recovery, the FOMC maintained a target range for the federal funds rate at the extraordinarily low level of 0 to ¼ percent throughout the year. With the federal funds rate virtually at its lowest possible level, the FOMC engaged in large-scale purchases of Treasury securities, federal agency debt, and agency mortgage-backed securities in order to improve market functioning and provide additional stimulus to the economy. The various facilities and programs put in place by the Board and the FOMC resulted in a sizable expansion of the Federal Reserve's balance sheet and the supply of bank reserves

in 2009. The management and operations of these facilities and programs required substantial resources both at the Board and at the Federal Reserve Banks. Over 2009, the System worked to enhance the efficiency of the asset purchase programs. Initially, purchases of mortgage-backed securities (MBS) were conducted through four investment managers. The System moved to a single investment manager in late 2009, and staff at the the Trading Desk at the Federal Reserve Bank of New York assumed the investment management function for MBS near the completion of the purchase program in March 2010. To increase transparency regarding the credit and liquidity facilities and asset purchase programs, the Federal Reserve developed a public website with detailed information on all its programs and also implemented a monthly report to the Congress that provides regular updates on all the programs and quarterly updates of the Federal Reserve's financial statements.

As financial market conditions improved beginning in spring 2009 and continuing into 2010, the Federal Reserve gradually scaled back most forms of unusual liquidity provision. By April 2010, nearly all of the special liquidity facilities had been closed. The gradual reduction in liquidity facilities tended to shrink the size of the Federal Reserve's balance sheet, but that tendency was offset by the large-scale asset purchases and the associated increase in banking system reserves. Although the FOMC continued to anticipate that economic conditions were likely to warrant exceptionally low levels of the federal funds rate for an extended period, the Board and the FOMC carefully developed tools, including reverse repurchase agreements and term deposits, that the Federal Reserve will be able to use to reduce the supply of reserve deposits when it eventually becomes ap-

propriate to begin withdrawing exceptional monetary policy accommodation. Initial tests of reverse repurchase agreement capabilities were conducted in late 2009, and planning for further tests of these transactions with an expanded set of counterparties is under way.

The Board and the FOMC base their monetary policy decisions on high-quality research and thorough analysis of economic and financial data. A vast amount of banking and financial data flows through the Reserve Banks to the Board, where the data are compiled and made available to the public. The research staffs at the Board and at the Banks use the 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 to the Board of Governors and 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 of Financial Institutions

The Federal Reserve 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 in-

spections 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 2009, the Federal Reserve conducted 655 examinations of state member banks (some of them jointly with state agencies), 640 examinations of large bank holding companies, and 3,109 inspections of small, noncomplex bank holding companies; it acted on 633 proposals, representing 2,143 individual applications involving bank holding company formations and acquisitions, bank mergers, and other transactions.

The Board also enforces compliance by state member banks and certain foreign banking organizations with federal laws protecting consumers who use credit and deposit accounts. During the reporting period from July 1, 2008, to June 30, 2009, the System conducted 282 consumer compliance examinations of its 782 state member banks and one foreign banking organization.² During this period, the System also conducted 229 examinations of banks for their compliance with the Community Reinvestment Act.

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 System 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 its 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 Federal Reserve Board orders new currency from the Bureau of Engraving and Printing, and the Reserve Banks order new coin from the U.S. Mint. The Federal Reserve Board pays for the printing and transportation of currency. The Federal Reserve Board issues currency to the Reserve Banks, and the Reserve Banks distribute currency and coin through depository institutions to meet public demand. The Reserve Banks also receive deposits of currency and coin from depository institutions; identify suspect counterfeit currency, which they forward to the U.S. Secret Service; and destroy currency that is unfit for circulation. In 2009, the Reserve Banks distributed approximately \$664.4 billion in currency and \$6.4 billion in coin to depository institutions. The Reserve Banks also received approximately \$629.9 billion in currency and \$6.3 billion in coin from depository institutions, and they destroyed \$92.7 billion in unfit currency. In 2009, the cost of printing and transporting currency was \$502.1 million.

The Reserve Banks also play a central role in the nation's payment systems by collecting checks and providing a variety of electronic services for depository institutions. In 2009, the Banks collected approximately 8.6 bil-

2. The foreign banking organizations examined by the Federal Reserve are organizations that operate under section 25 or 25A of the Federal Reserve Act (Edge Act and agreement corporations) and state-chartered commercial lending companies owned or controlled by foreign banks. These institutions are typically not subject to the Community Reinvestment Act, and they typically engage in relatively few activities covered by consumer protection laws.

lion commercial checks, with a total value of about \$13.8 trillion. The Banks' automated clearinghouse (ACH) service allows depository institutions to send or receive credit transfers, such as direct payroll payments and corporate payments to vendors, and debit payment transactions authorized by consumers, such as payments of insurance premiums, mortgages, loans, and other bills from their accounts. In 2009, the Reserve Banks processed approximately 11.2 billion ACH transactions, valued at about \$19.7 trillion. Approximately 11 percent of the transactions were for the federal government; the rest were for commercial establishments.

The Reserve Banks' Fedwire Funds Service allows participants to use their accounts at the Reserve Banks to transfer funds to other participants. In 2009, the Reserve Banks processed approximately 125 million Fedwire funds transfers, valued at approximately \$631 trillion.

The Reserve Banks' National Settlement Service allows participants in private clearing arrangements to settle transactions through their Federal Reserve accounts. In 2009, approximately 41 local and national private arrangements, primarily check clearinghouse associations, used the National Settlement Service. The Reserve Banks processed more than 463,000 settlement entries for these arrangements, with a debit value of more than \$16.5 trillion in 2009.

The Reserve Banks' Fedwire Securities Service provides securities services to participants, including the settlement of book-entry transfers of securities issued by the U.S. Treasury, federal government agencies, government-sponsored enterprises, and certain international organizations. In 2009, participants originated approximately 22 million transfers, valued at more than \$301 trillion.

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

As fiscal agents and depositories for the federal government, the Federal Reserve Banks auction Treasury securities, process electronic and check payments for Treasury, collect funds owed to the federal government, maintain Treasury's bank account, and invest Treasury balances. The Reserve Banks also provide certain fiscal agency and depository services to other entities; these services are primarily related to book-entry securities. Treasury and other entities fully reimbursed the Reserve Banks for the costs of providing fiscal agency and depository services. In 2009, reimbursable expenses amounted to \$450.3 million.

The Reserve Banks auction, issue, maintain, and redeem securities, as well as operate the automated systems supporting paper U.S. savings bonds and book-entry marketable Treasury securities. In 2009, the Reserve Banks conducted 283 Treasury securities auctions and processed nearly 10 million Treasury securities transfers. The Reserve Banks also printed and mailed more than 20 million savings bonds. The Reserve Banks continued to support Treasury's efforts to improve the quality and efficiency of its securities services.

The Reserve Banks collect and disburse funds on behalf of the federal government. In 2009, the Reserve Banks processed 1.2 billion government ACH payments and 202.2 million Treasury check payments. The Reserve Banks continued to support Treasury's ongoing effort to convert paper checks to electronic payments through the Go Direct initiative. In 2009, more than 692,000 check payments were converted to direct deposit through this program. The Reserve Banks also operate Pay.gov, a Treasury program that allows the public to use the Internet to

authorize and initiate payments to federal agencies. In 2009, Pay.gov processed transactions worth \$64.9 billion.

The Reserve Banks provide cash-management services to the Treasury and maintain the Treasury's operating cash account. In 2009, the Reserve Banks continued to support Treasury's effort to modernize its financial management processes, with a focus on centralized government accounting and reporting. The Reserve Banks also managed several new and ongoing software development efforts in support of Treasury's objectives.

When permitted by federal statute or when required by the Secretary of the Treasury, the Reserve Banks provide

fiscal agency and depository services to other domestic and international entities. Book-entry securities issuance and maintenance activities account for a significant amount of the work performed for these entities.

System Policy Direction and Oversight

This operational area encompasses activities by the Board of Governors in supervising Board and Reserve Bank programs. At the Reserve Bank level, the expenses for these activities are considered support and are therefore allocated across the other operational areas. ■

The Budgets

Chapter 1

Federal Reserve System

Total expenses for the Federal Reserve System for 2010 are budgeted at \$4,368.4 million, an increase of 8.1 percent from 2009 actual expenses. Of this total, \$3,221.3 million is for the Reserve Banks, \$444.2 million is for the Board of Governors, and \$702.9 million is for the cost of new currency (tables 1.1 and 1.2). Revenue from priced services provided to depository institutions is expected to total \$565.9 million, or 13 percent of total budgeted expenses. This revenue, combined with claims for reimbursement and other income, results in the recovery of approximately 24 percent of the System's budgeted 2010 expenses.¹ When these

items are deducted from budgeted 2010 expenses, net expenses for the System are 14.5 percent higher than 2009 net expenses (table 1.1), primarily because of a decline in priced services revenue and an increase in currency expenses.

The distribution of budgeted expenses is similar to that in previous years, with the Reserve Banks' expenses accounting for 74 percent of the total, new currency expenses accounting for 16 percent, and Board expenses accounting for the remainder (chart 1.1).

System employment is budgeted at 19,768 for 2010, a decrease of 281 from the 2009 level, largely because of planned staff reductions by the Reserve Banks.

1. *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.

Table 1.1 Total Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 2008–2010

Millions of dollars, except as noted

Item	2008 (actual)	2009 (actual)	2010 (budgeted)	Percent change	
				2008–2009	2009–2010
Total System expenses ¹	3,872.4	4,041.4	4,368.4	4.4	8.1
LESS					
Revenue from priced services.....	873.8	675.4	565.9	–22.7	–16.2
Claims for reimbursement ²	461.1	450.3	463.2	–2.3	2.9
Other income	1.3	1.3	1.2	2.0	–7.1
EQUALS					
Net System expenses	2,536.2	2,914.4	3,338.1	14.9	14.5

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

1. With the 2009 *Annual Report: Budget Review*, a change was made in the way expenses were presented: The costs of printing and transporting currency, and related expenses, were included in total System expenses, to align with the presentation in the Board's *Annual Report*. Relevant figures for 2008 also include currency expenses, which, in reports prior to 2009, were shown as a memo item.

2. 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, 2008–2010

Millions of dollars, except as noted

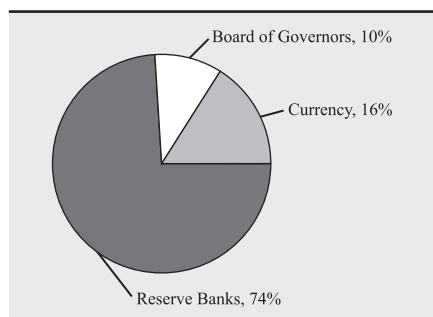
Item	2008 (actual)	2009 (actual)	2010 (budgeted)	Percent change	
				2008 to 2009	2009 to 2010
Reserve Banks ¹	3,020.8	3,142.5	3,221.3	4.0	2.5
Personnel.....	2,021.3	2,155.7	2,201.4	6.6	2.1
Nonpersonnel.....	999.5	986.9	1,019.9	–1.3	3.4
Board of Governors ²	351.2	396.8	444.2	13.0	11.9
Personnel.....	268.2	294.1	319.0	9.7	8.5
Nonpersonnel.....	83.0	102.7	125.2	23.7	21.9
Currency ³	500.4	502.1	702.9	0.3	40.0
Total System expenses.....	3,872.4	4,041.4	4,368.4	4.4	8.1

NOTE: Expenses exclude capital outlays. Components may not sum to totals and may not yield percentages shown because of rounding.

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. For more information on currency expenses, see chapter 4.

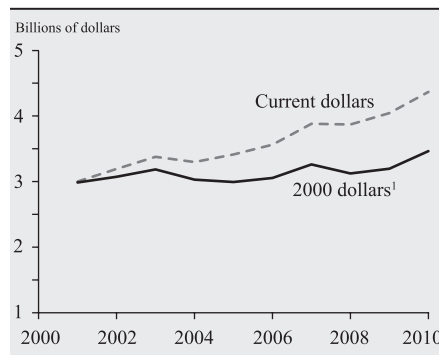
Chart 1.1 Distribution of Budgeted Expenses of the Federal Reserve System, 2010

2010 System Budget Initiatives

The Reserve Bank budgets are funding increases in the central bank functions, specifically supervision and regulation, loans to depository institutions and others, and cash operations, offset by reductions in check operations. The major factors affecting the 2010 Reserve Bank budgets are outlined in more detail in chapter 3.

Trends in Expenses and Employment

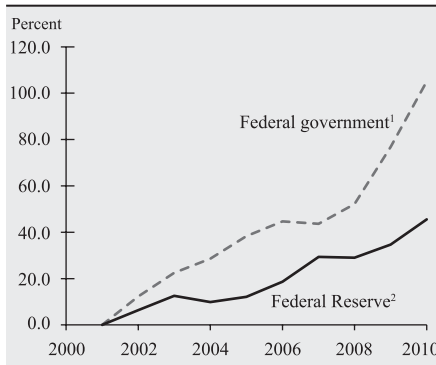
From the actual 2001 level to the budgeted 2010 amount, the total expenses of the Federal Reserve System have increased an average of 4.3 percent per year (1.9 percent per year when adjusted for inflation) (chart 1.2). Over the same period, nondefense discretionary spending by the federal government

Chart 1.2 Total Expenses of the Federal Reserve System, 2001–2010

NOTE: Includes extraordinary items and expenses of the Office of Inspector General.

1. Calculated with GDP price deflator.

Chart 1.3 Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 2001–2010



NOTE: For 2010, budgeted.

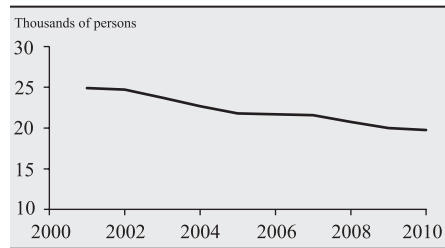
1. Discretionary spending less expenditures on defense. Source: *Budget of the United States Government, Fiscal Year 2010: Historical Tables*, Table 8.1 Outlays by Budget Enforcement Act Category, 1962–2014.

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

has increased an average of 8.3 percent per year (chart 1.3). Over the 2001–2010 period, Federal Reserve System employment has decreased by 5,140 (chart 1.4).

The primary factors influencing both Reserve Bank spending restraint and the substantial staffing decreases over the past 10 years have been restructuring efforts in the check-processing function and efficiency measures in the support and overhead functions. Over the same 10-year period, check costs decreased an average of 9.5 percent and check staff declined an average of 17.8 percent annually. Local support and overhead costs increased an average of 1.7 percent annually and the associated

Chart 1.4 Employment in the Federal Reserve System, 2001–2010



NOTE: For 2010, budgeted.

staffing level declined an average of 3.1 percent annually over the same 10-year period.

2010 Capital Budgets

The capital budgets for the Reserve Banks and the Board total \$458.0 million, with \$434.4 million budgeted for the Reserve Banks and Federal Reserve Information Technology and \$23.6 million budgeted for the Board. As in previous years, the 2010 capital budgets include funding for projects that support the strategic direction outlined by the individual Reserve Banks, System business leaders, and the Board. These strategic goals focus on investments that continue to improve operational efficiencies, enhance services to bank customers, and ensure a safe, high-quality work environment. More-detailed discussions of the Board and Reserve Bank capital budgets are included in chapters 2 and 3, respectively. ■

Chapter 2

Board of Governors

For the past 12 years, the Board prepared two-year budgets. However, to better respond to the significant changes in demands placed on the Board during the financial crisis and the potential impact of regulatory restructuring proposals, the Board approved a one-year budget for 2010.

2010 Budget

Board of Governors

The Board approved a \$425.0 million operating budget and a \$23.6 million capital budget for 2010. The budget reflects growth in personnel service expenses as well as increased costs for goods and services. For personnel services, the primary driver underlying the increase is the full-year effect of positions added during the 2008–09 budget period in response to increased workload demands, driven in large part by the financial crisis and Board compli-

ance with mandates such as the Federal Information Security Management Act, requirements under Section 508 of the Rehabilitation Act for the Board's websites, and the Sarbanes-Oxley Act. Increases in the category of goods and services include higher costs for the Survey of Consumer Finances (in response to the financial crisis and the need to increase the survey's sample size), additional rental expenses related to leased office space, and increased costs of the Reserve Banks' external audit.

Office of Inspector General

In keeping with its statutory independence, the Office of Inspector General (OIG) prepares its proposed budget apart from the Board's budget. The Board approved an operating budget of \$19.2 million and a \$50,000 capital budget for 2010 for the OIG. The growth in the budget is mostly to fund

Table 2.1 Operating Expenses and Capital Expenditures of the Board of Governors, 2006–2010

Millions of dollars, except as noted

Operational area or Office of Inspector General	2006–07 (budgeted)	2006–07 (actual)	2008–09 ¹ (budgeted)	2008–09 (actual)	2010 (budgeted)
Monetary and economic policy.....	143.1	137.9	169.8	166.1	95.8
Supervisory, regulatory, and legal services...	206.4	200.5	250.2	247.9	138.8
Federal Reserve System policy direction.....	55.6	55.9	65.4	63.8	36.8
Support and security services	195.4	198.8	243.7	252.4	143.5
Extraordinary items	9.0	8.3	7.3	5.5	10.2
Total, Board operations	609.5	601.4	736.4	735.6	425.0
Total, capital²	31.4	24.7	47.9	33.3	23.6
Office of Inspector General	10.2	9.5	14.0	12.4	19.2

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

1. 2008–09 budgeted figures include \$30.1 million and \$1.3 million added to the Board's and the Office of Inspector General's respective operating budgets during 2009.

2. Includes the Office of Inspector General.

Table 2.2 Positions Authorized at the Board of Governors, 2006–2010

Operational area or Office of Inspector General	Position count ¹				
	2006–07 (initial)	2006–07 (ending)	2008–09 (initial)	2008–09 (ending)	2010 (budgeted)
Monetary and economic policy.....	466	467	481	493	506
Supervisory, regulatory, and legal services...	567	577	576	615	627
Federal Reserve System policy direction.....	173	176	179	185	187
Support and security services ²	770	805	805	873	870
Extraordinary items	...	...	...	...	...
Total, Board operations	1,976	2,025	2,041	2,166	2,190
Office of Inspector General	36	36	37	45	61

NOTE: Includes only those divisions, offices, and special accounts that have authorized position counts.

1. Excludes summer interns.

2. Includes positions that support the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act, as well as cooperative education, worker trainee, and student aide programs that assist offices and divisions Boardwide.

... Not applicable.

personnel services and contractual professional services to conduct legislatively mandated material loss reviews of failed banks.

Authorized Positions

The Board's 2010 budget includes 2,190 authorized positions. This figure reflects an increase in the number of positions to address increased workload demands, integrate analysis for financial stability, enhance policy analysis, address new legislative and regulatory initiatives, address consumer compliance, and improve consumer protection. The OIG's 2010 budget includes an increase of 16 positions to conduct material loss reviews of failed banks, mentioned above.

Areas of Risk

Risks to the budget stem from the continued pressure on staff to meet the demands generated by the financial crisis and to complete the backlog of work because of the shift in focus to meet those demands. Passage of proposed legislation related to regulatory restruc-

turing could result in significant changes to the Board's responsibilities for, and processes related to, bank supervision and regulation as well as consumer protection. These changes could, in turn, necessitate a revision to the strategic plan and to budgetary requirements. The Board's continued commitment to maintaining the transparency of its operations and the potential increase in both the number and the complexity of requests for information not disclosed under the transparency initiative may require additional investments in information systems to enhance the Board's communication and document management capabilities. Finally, an increase in staffing levels (including new positions in the OIG) may require additional funding to secure additional leased space.

2008–09 Budget Performance

Board of Governors

The Board's actual operating expenses for 2008–09 were \$735.6 million, or \$0.8 million less than the operating plan. Increased spending for travel and

rentals was offset by lower-than-expected expenses for contractual professional services for the Reserve Banks' financial audit, the Survey of Consumer Finances, and depreciation for capital projects that was deferred to future periods. Capital purchases totaled less than the operating plan by \$14.5 million because construction costs were less than budgeted and because projects were delayed, primarily because of staff focus on the financial crisis.

Office of Inspector General

The OIG's actual expenses totaled \$12.4 million for 2008–09, or \$1.6 million less than the operating plan. The decrease was mainly due to lower-than-expected personnel services expenses and contractual professional service expenses related to the material loss reviews of failed banks. ■

Chapter 3

Federal Reserve Banks

The 2010 operating budgets of the 12 Reserve Banks total \$3,221.3 million.¹ The 2010 total is \$78.8 million, or 2.5 percent, above 2009 actual expenses. This growth is driven by increases in central bank functions, specifically those related to supervision and regulation, loans to depository institutions and others, as well as cash operations. These increases are significantly offset by decreases in priced services as a result of the decline in paper-check volume, reductions in the check-processing infrastructure, and the substantial reductions in check transportation costs. In addition, the increase in expenses is further offset by a reduction in vendor fees incurred by the New York Federal Reserve Bank.

Budgeted net expenses for 2010, after revenue and reimbursements, are ex-

pected to increase by \$175.5 million, or 8.7 percent, over 2009 actual net expenses (table 3.1). Approximately 32 percent of Reserve Bank expenses in the 2010 budget are offset by priced service revenues (18 percent) and reimbursable claims for services provided to the Treasury and other agencies (14 percent).² Budgeted 2010 priced services revenue is lower than the 2009 actual level, primarily because of declining paper-check volume. Reimbursable claims are expected to increase only slightly in 2010, a reflection of an ongoing effort by the Treasury and the Reserve Banks to contain costs while maintaining support for key programs and advancing new initiatives.

Total 2010 projected employment for the Reserve Banks, Federal Reserve In-

1. These expenses include those budgeted by the Federal Reserve Information Technology and the Office of Employee Benefits that are chargeable to the Reserve Banks.

2. Reimbursable claims include costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to and reimbursed by these agencies.

Table 3.1 Operating Expenses of the Federal Reserve Banks, Net of Receipts and Claims for Reimbursement, 2009 and 2010

Millions of dollars, except as noted

Item	2009 (actual)	2010 (budgeted)	Change	
			Amount	Percent
Total operating expenses.....	3,142.5	3,221.3	78.8	2.5
LESS				
Revenue from priced services.....	675.4	565.9	-109.5	-16.2
Claims for reimbursement ¹	450.3	463.2	12.9	2.9
Other income	1.3	1.2	-0.1	-7.1
EQUALS				
Net expenses	2,015.5	2,191.0	175.5	8.7

NOTE: Excludes capital outlays. Includes expenses budgeted by the Federal Reserve Information Technology and the Office of Employee Benefits. 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 redistributions for support and allocation of 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.

Table 3.2 Employment at the Federal Reserve Banks, FRIT, and OEB, 2009 and 2010
Average number of personnel, except as noted

Item	2009 (actual)	2010 (budgeted)	Change	
			Amount	Percent
Reserve Banks	16,910	16,628	-282	-1.7
Federal Reserve Information Technology (FRIT) ..	925	904	-21	-2.3
Office of Employee Benefits (OEB)	45	47	2	4.4
Total	17,880	17,578	-302	-1.7

NOTE: Components may not sum to totals and may not yield percentages shown because of rounding. See text note 3 for definition of *average number of personnel* (ANP).

formation Technology (FRIT), and the Office of Employee Benefits (OEB) is 17,578 “average number of personnel (ANP),” a decrease of 302 ANP, or 1.7 percent, from the 2009 actual staff level (table 3.2).³ The 2010 staffing decrease is the result of a continuing trend of workforce reductions that began in the late 1990s; staffing levels are at their lowest point in more than 30 years. The 2010 budgeted staff reductions are largely due to the effect of infrastructure changes and paper-check volume declines; these decreases are slightly offset by staffing increases in central bank functions. Given the current financial market and banking conditions, the Reserve Banks have increased resources dedicated to fulfilling their central bank responsibilities, which include research, supervision and regulation, loans and credit, and public information.

2009 Budget Performance

Total 2009 actual expenses are \$3,142.5 million, an increase of \$56.4 million, or 1.8 percent, from the approved 2009

budget of \$3,086.2 million. Total 2009 actual staffing is 17,880 ANP, a decrease of 140 ANP from the 2009 budgeted level of 18,020 ANP.

The expense increase compared with budget was driven in part by the expanded responsibilities in response to the economic crisis (\$107.0 million, or 110 percent). Reflected in the increase are additional staffing and data needs and unforeseen fees related to the Federal Agency Mortgage-Backed Securities Purchase and Term Asset-Backed Securities Loan Facility programs. Also contributing to the increase over budget is the growth in supervision and regulation staffing in response to the financial conditions of the banking industry (\$11.0 million and 78 ANP).

Partially offsetting the overrun are decreased expenses in the check function (\$47.1 million, or 10 percent). The Reserve Banks significantly accelerated the closing of the check-processing sites in 2009, substantially reduced check transportation, and reduced staff in the check adjustments function because of paper-check volume declines. By the end of 2010, only one full-service paper-check processing site will remain.

Also offsetting the overrun is lower expenses for Treasury services (\$13.3 million, or 3.0 percent). Treasury services were under budget largely because of a reduction in Treasury Web

3. ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who works one-half of the year counts as 0.5 ANP for that calendar year; two half-time employees who work the full year count as 1 ANP.

Application Infrastructure (TWA) expenses, resulting from the TWA optimization program, an effort begun in 2007 to identify efficiencies and cost savings, and delays in the Treasury's Collections and Cash Management Modernization (CCMM) initiative.⁴

The underrun in total staffing of 140 ANP, as compared with the approved budget, reflects lower staffing in several areas, partially offset by crisis-related overruns (99 ANP). Check operations are 253 ANP under budget because the System's legacy infrastructure was downsized beyond the budgeted projection and because inter-District check transportation was eliminated. Treasury services are 28 ANP below budget, reflecting CCMM project delays and volume. Cash operations are 23 ANP under budget, primarily because of volume declines and productivity gains. In addition, the Reserve Banks continue to reduce staffing in internal support functions in response to the declines in operation areas. Overall support functions are 49 ANP under budget. The facilities management function is 22 ANP under budget because of outsourced housekeeping in one District. Also contributing to the underrun in support functions are lower staffing levels in law enforcement (25 ANP) and food services (10 ANP) resulting from process improvements.

Initiatives Affecting the 2010 Budget

For 2010, the Reserve Banks' budgets reflect several initiatives that will con-

tinue to address financial stability and deteriorating banking conditions, as well as enhance resiliency.

Central Bank Services

In the central bank area, which includes monetary policy, public programs, supervision and regulation, and cash operations, expenses are increasing \$162.8 million, or 7.7 percent, in the 2010 budget. The staffing level is increasing 233 ANP, in part because of the full-year effect of staff additions in 2009, including 118 ANP to support loans to depository institutions and others. Total costs for monetary policy are budgeted to remain relatively flat, reflecting higher salary-related costs, offset by nonrecurring crisis-related expenses.

The budget for the supervision and regulation function is increasing \$59.0 million, or 8.1 percent, as the function plans for additional staffing resources (133 ANP) to address the deterioration in the banking industry's performance and condition, sharply higher numbers of 3/4/5-rated state member banks and bank holding companies, and accelerated frequency of mandated examinations and inspections.

Expenses in cash operations are increasing \$36.2 million, or 7.6 percent. The Currency and Coin Handling Environment (CACHE) project and upgrades to the currency processing sorters and related sensors are driving the increase.⁵ These expenses are partially offset by staffing reductions (42 ANP) resulting from lower-than-expected volumes.

4. CCMM is a comprehensive multiyear enterprise architecture initiative to streamline, modernize, and improve the services, systems, and processes supporting the Treasury's collections and cash-management programs. The goal is to improve efficiency and reduce costs to the Treasury, which provides a savings to the taxpayers.

5. The CACHE project is being re-evaluated, and the effect on the budget is unknown at this time.

Treasury-Related Functions

The budget for services to the Treasury, which are fully reimbursable, is increasing \$14.7 million, or 3.4 percent. Expenses related to the TWAI are increasing as the number of applications hosted in the infrastructure expands in connection with the CCMM initiative. In addition, several projects under the CCMM umbrella are expected to gain momentum in 2010; one portion of the project is being delayed from 2009 until 2010. These increases are partially offset by lower staffing needs (21 ANP) and lower costs associated with the continued volume declines in Treasury retail securities, government checks, and postal money orders, as well as the completion of the Treasury Debt Management System application development effort.

Priced Services

Total check expenses are decreasing \$111.6 million, or 26.5 percent, reflecting the check restructuring costs and continued paper-check volume declines. In response to the continuing decline in paper-check volumes, the Federal Reserve announced that the Federal Reserve Bank of Cleveland will serve as the System's single paper-check processing and adjustments site and that the Federal Reserve Bank of Atlanta will serve as the System's single electronic-check processing site. This transition to a single paper-check processing site was completed in February 2010. As a result, the check staffing level is decreasing 502 ANP. Even with these cost reduction efforts, the Reserve Banks have budgeted a recovery rate of 94.5 percent in 2010. The Reserve Banks continue to identify additional opportunities to meet long-term cost-recovery objectives.

Support Services

Support costs are increasing \$30.8 million, or 3.1 percent. The expense increases are driven primarily by increases in facilities management (\$14.6 million) and information technology (\$8.0 million). Facilities costs are increasing because of the completion of larger building projects and the expansion of leased space in New York. IT costs are increasing in support of cash and Treasury projects at several Reserve Banks. The staffing level is decreasing 21 ANP, primarily because of efficiency gains.

Five-Year Trend in Reserve Bank Expenses

Total expenses for the Reserve Banks have grown an average of 4.4 percent annually over the past five years.

Central Bank Services

Central bank services have grown an average of 9.2 percent annually over the past five years. The increase is primarily in the areas of monetary policy, public programs, and loans to depository institutions and others, where expenses have grown, on average, 12.5 percent annually; the Banks have increased resources dedicated to community outreach, financial literacy, regional economic research efforts, and lending activities. Expenses in the supervision and regulation function have grown an average of 9.0 percent annually over the past five years, reflecting the need for additional resources necessary to recruit and retain staff with specialized skills, and more recently, to address financial market turmoil and deteriorating banking and economic conditions. There have been ongoing

efficiency improvements in the cash area over the past five years; however, expenses in cash operations have increased an average of 5.2 percent annually, reflecting increased costs to modernize the cash-processing and inventory-tracking infrastructure, along with higher support costs, particularly protection costs.

Treasury Services

Treasury services expenses have grown on average 3.4 percent annually since 2005. Efforts by the Treasury to limit expense growth and delays in some CCMM projects have resulted in modest growth in recent years. Growth from 2005 to 2007 was driven primarily by the expansion of the TWAI to host a growing number of Treasury applications.

Priced Services

Priced services expenses have declined an average of 7.8 percent annually over the past five years, driven by the check service. Efforts to reduce the size of the System's check operations, consistent with declining volumes, have resulted in an average annual decline of 12.9 percent in check-service costs since 2005. The downward trend in check expenses reflects staff reductions of 3,130 ANP since 2005.

2010 Personnel Expenses

Budgeted officer and employee salaries and other personnel expenses for 2010 total \$1,678.0 million, an increase of \$61.8 million, or 3.8 percent, compared with 2009 actual expenses. The increase reflects budgeted salary administration programs, including merit increases, market adjustments, promo-

tions, and variable pay. Funding for officer and employee base salary administration programs is \$47.1 million; merit pools for officers and employees total \$33.2 million, and funding for market increases and promotions totals \$13.8 million. The merit budget reflects an average increase of 2.5 percent for both officers and employees. Variable pay programs are increasing \$9.5 million in 2010, with variable pay pools averaging 12.7 percent for officers and senior professionals and 4.8 percent for employees.

Although funding for merit increases decreased in 2010, merit continues to be the largest component of the total increase in salary administration costs. Growth in salary administration expenses continues to be driven by the cost of a more highly skilled workforce. Although ANP is budgeted to decrease 301 in 2010 when compared to 2009 actual staffing levels, the reduced positions are largely nonexempt, lower-salaried positions. The trend in staff additions have been toward more highly skilled, higher-salaried exempt and officer positions.

Risks in the 2010 Budget

There are a number of risks in the 2010 budget. Primary among these is the potential for legislative changes that could alter the Federal Reserve's authority. Additional staff may also be needed to manage the ongoing challenges facing banking supervision and regulation in the current economic climate. Treasury project changes and delays could also increase budgeted expenses. In connection with the CCMM initiative, the Treasury continues to refine its vision for collections and cash-management systems. If the Treasury changes its current direction, additional costs and resources may be required.

2010 Capital Plan

The 2010 capital budgets submitted by the Reserve Banks, FRIT, and OEB total \$434.4 million, a \$65.3 million, or 17.7 percent, increase from the 2009 actual level. The 2010 capital budgets include funding for projects to support strategies that improve operational efficiencies, enhance services to Reserve Bank customers, and ensure a safe and high-quality work environment. In support of these strategies, the 2010 budgets include seven categories of capital outlays: (1) building projects and facility improvements, (2) payment system improvements, (3) cash-services initiatives, (4) Treasury initiatives, (5) information technology infrastructure initiatives, (6) security enhancements, and (7) miscellaneous acquisitions.

The proposed capital budgets include \$178.3 million for building-related projects and facility improvements. Of this total, \$48.8 million is for major projects begun in previous years at the Federal Reserve Banks of Boston, New York, and St. Louis. The total also includes a major project for the Federal Reserve Bank of New York to accommodate increased staffing related to financial stability efforts. The remaining outlays in this category will fund various building renovation and refurbishment projects, as well as miscellaneous facility improvement projects.

Initiatives related to cash, payment systems, and Treasury initiatives represent \$111.9 million of the capital budgets. Of this total, \$54.6 million is for cash-services initiatives, including the CACHE development effort (\$21.4 million) and the Systemwide upgrade of cash-processing machines (\$25.1 million). The budgets also include \$35.4 million for reimbursable Treasury initiatives, including support of the TWAI, Government-Wide Accounting, CCMM-related efforts, and various other initiatives, as well as \$21.8 million for multiyear efforts to migrate System applications, including FedACH and Fedwire, off the mainframe to a distributed environment. The Reserve Banks and FRIT included \$98.8 million in funding for major information technology initiatives. These initiatives do not include the automation components of building or payment systems initiatives discussed separately. Of the total automation-related outlays, FRIT projects and acquisitions account for \$32.0 million and New York Reserve Bank projects account for \$32.8 million. In addition, the budgets include \$6.5 million in initial outlays for Systemwide server consolidation.

The proposed capital budgets include \$40.9 million for security enhancements and \$4.6 million for equipment and software not falling into the defined categories above. ■

Chapter 4

Currency Budget

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 the Treasury’s Bureau of Engraving and Printing (BEP). Upon reviewing the order, the BEP establishes billing rates for new currency, which the Board staff uses to prepare the annual budget for new currency. Each month, the Board assesses the costs of new currency to each Federal Reserve Bank through an accounting procedure similar to that used in assessing the costs of the Board’s operating expenses to the Banks. Total new currency expenses for 2009 were under budget by \$129.3 million, or 20.5 percent, primarily because of delays associated with the new-design \$100 note. In addition, the BEP requested that the Board move nearly 630 million notes from the fiscal year

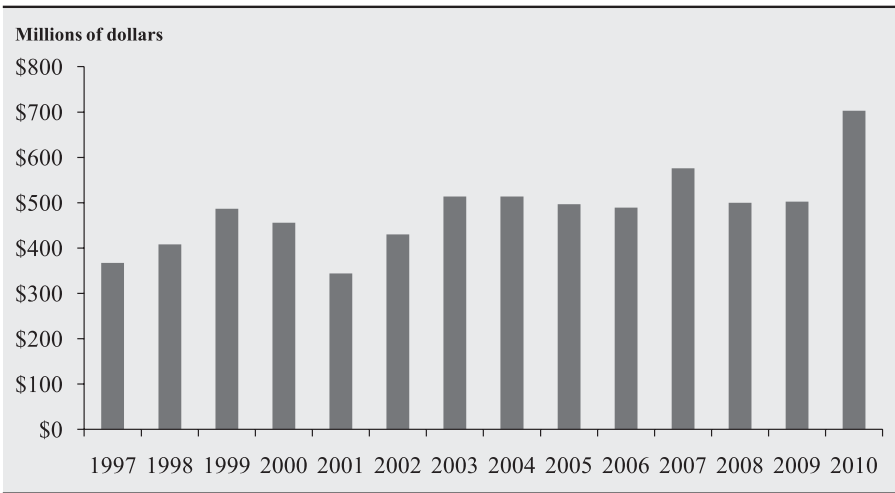
2009 print order into the fiscal year 2010 print order.

The approved 2010 new currency budget of \$702.9 million is 40.0 percent higher than 2009 costs (chart 4.1). Printing costs for Federal Reserve notes represent 96 percent of the new currency budget, and expenses for currency transportation, counterfeit-deterrence research, and the BEP’s Finance Directorate operations account for the remaining 4 percent (table 4.1).

Printing of Federal Reserve Notes

The calendar-year 2010 currency order will cost \$676.9 million to print, a 41.2 percent increase from the cost for the 2009 order. This 41.2 percent increase is attributable to the larger number of

Chart 4.1 Federal Reserve Costs for New Currency, 1997–2010



NOTE: For 2010, budgeted.

Table 4.1 Federal Reserve Budget for New Currency, 2009 and 2010

Thousands of dollars, except as noted

Item	2009 (actual)	2010 (budgeted)	Percent change
Printing of new Federal Reserve Notes ¹	479,255	677,613	41.4
Currency transportation	15,368	17,446	13.5
Counterfeit-deterrence research	3,913	4,208	7.5
Reimbursement to the BEP's Finance Directorate	3,609	3,650	1.1
Total cost of currency	502,145	702,918	40.0

1. Includes expenses for other currency-related initiatives.

more-expensive notes ordered, as well as the BEP producing fewer notes in 2009 than budgeted. The volume-weighted average billing rate per thousand notes increased 2.9 percent, from \$86.36 in 2009 to \$88.87 in 2010 (table 4.2); it increased largely because of the estimated cost for the Series 2004 \$100 note, which accounts for approximately 36.1 percent of the 2010 order, and changes in both print-order volume and denomination mix. In addition, the 2010 new currency budget is also higher than 2009 costs because it contains a larger share of more-expensive Series 2004 notes than did the 2009 budget. Series 2004 notes account for 79.3 percent of the 2010 calendar-year budget, compared with 23.3 percent of the 2009 calendar-year budget. Specifically, the 2010 calendar-year budget includes nearly 2.8 billion Series 2004 \$100 notes at the billing rate of

\$117.98 per thousand notes, amounting to \$324.6 million, or 48.0 percent, of the total printing costs for the new currency budget.

Currency Transportation

The 2010 currency transportation budget is \$17.4 million, which includes the costs of shipping new currency from the BEP to Reserve Banks (\$8.5 million), of shipping fit and unprocessed currency between Reserve Banks (\$8.9 million), and of returning currency pallets to the BEP (\$45,000).

The 2010 budget for currency transportation increased 11.2 percent from 2009 costs. The overall increase reflects only a slight change in intra-System shipment costs, but a 17.9 percent increase in new currency shipment costs. This increase in the new currency ship-

Table 4.2 Projected Federal Reserve Costs of Printing New Notes, by Type of Note, 2010

Type of currency	Number of notes (millions)	Percentage of total notes	Cost per thousand notes (dollars)	Total cost (thousands of dollars)
Unthreaded (\$1, \$2)	1,469.8	19.3	48.07	70,651
Series 1996 (\$100)	108.8	1.4	85.35	9,286
Series 2004				
\$5	805.3	10.6	77.57	62,466
\$10	214.6	2.8	78.85	16,924
\$20, \$50	2,267.0	29.8	85.11	192,948
\$100 ^e	2,751.2	36.1	117.98	324,588
Volume-weighted average cost	...	...	88.87	...
Total	7,616.7	100.0	...	676,863

e Estimate.

... Not applicable.

ment budget reflects projected costs to ship Series 2004 \$100 notes from the BEP to every Reserve Bank in order to build sufficient inventories before issuance.

Counterfeit-Deterrence Research

The 2010 budget for counterfeit-deterrence research is \$4.2 million, which includes the costs associated with the Central Bank Counterfeit Deterrence Group (CBCDG) and the Reprographic Research Center (RRC). The CBCDG, which includes 31 central banks, operates under the auspices of the G-10 central bank governors to combat digital counterfeiting. The Board's \$4.2 million share of the 2010 CBCDG budget, which accounts for 99 percent of the Federal Reserve's counterfeit-deterrence budget, is 7.5 percent higher than the Board's share of the 2009 CBCDG costs.¹

1. The estimated RRC payment of \$36,000 represents the remaining 1 percent of the counterfeit-deterrence research budget. The RRC

Bureau of Engraving and Printing Finance Directorate

The 2010 budget includes \$3.6 million to reimburse the BEP for expenses incurred by its Destruction Standards and Compliance Division (DSCD) and Mutilated Currency Division (MCD). The DSCD develops Reserve Bank standards for cancellation and destruction of unfit currency and for note accountability; it also reviews Reserve Banks' cash operations for compliance with its standards. As a public service, the MCD processes claims for the redemption of damaged or mutilated paper currency. ■

is a state-of-the-art facility, hosted by the National Bank of Denmark, that is used for adversarial testing of banknote designs and counterfeit deterrent features for its 13 member countries.

Appendixes

Appendix A

Federal Reserve Budget Processes

The budgets for the Board of Governors, the Federal Reserve Banks, and currency are separate, and each has its own budget process.

Board of Governors

For the past 12 years, the Board prepared two-year budgets. However, to better respond to the significant changes in demands placed on the Board during the financial crisis and the potential impact of regulatory restructuring proposals, the Board approved a one-year budget for 2010.

- The Board's budget is structured by division, office, or special account (see appendix C, table C.1).
- The Board establishes a base budget to support current operations.
- Each division identifies new initiatives and savings required to achieve its objectives for the next budget cycle.
- The Board's Staff Planning Group (SPG), a committee of senior officers representing major lines of business, evaluates each new initiative and proposed savings in the context of the Board's as well as the division's mission.
- The proposed budget is submitted to the Committee on Board Affairs (CBA). The CBA submits the budget to the Board for review and final action.
- Monthly expenses are compared with budgets by division and accounting classification. Variances are analyzed and reported.

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 budget directly to the Chairman for action by the Board.

Federal Reserve Banks

The Reserve Banks' budgets cover one year. Annually, each Reserve Bank establishes major operating goals for the coming year, devises strategies for attaining those goals, estimates required resources, and monitors results. The Reserve Banks' budgets are structured by operational area, with support and overhead attributable to each area charged to that area.

The operations and financial performance of the Reserve Banks are monitored throughout the year by way of a cost-accounting system, the Planning and Control System (PACS). Under PACS, the costs of all Reserve Bank functions are grouped by operational area, and the associated costs of support and overhead are charged to these areas accordingly. PACS makes it possible to compare budgets with actual expenses, and it facilitates comparison of the financial and operating performances of the Reserve Banks. During the budget year, the Reserve Banks must submit proposals for major purchases of assets to the Board for further review and approval.

Following is a summary of the Reserve Bank budget process:

- The business leaders in each functional area provide guidance to the Reserve Banks for the upcoming budget year.
- The Reserve Banks develop early budget projections that incorporate

the business leader guidance. The budgets are reviewed by the Reserve Banks for consistency with the System direction and further refined to reflect business direction.

- The Reserve Banks submit preliminary budget information to the Board for staff review, including documentation to support the budget request.
- Board staff analyzes the Bank's budgets, both individually and in the context of Systemwide initiatives and other Banks' plans.
- The Committee on Federal Reserve Bank Affairs reviews the Bank budgets.
- The Reserve Banks make any requested or needed changes to the budgets, and the revised projections are submitted to the Board.
- The budgets are provided to the members of the Board for final action.
- Throughout the year, Reserve Bank and Board staff compare actual performance to budgeted projections.

Currency

The currency budget covers one (calendar) year. On a monthly basis, Board staff monitors payments of currency to and receipts of currency from circulation and the number of unfit notes destroyed at the Reserve Banks. Board staff estimates the number of notes the Board will order from the BEP to meet demand based on monthly monitoring,

forecasts of growth rates for payments of currency to circulation and receipts of currency from circulation, operational factors, and other policy considerations. Historically, over 90 percent of the notes that the Board orders each year replace unfit currency that Reserve Banks receive from circulation.

The currency budget process is as follows:

- Each July, based on Board staff's assessment of currency demand, the director of the Division of Reserve Bank Operations and Payment Systems submits a fiscal year print order for currency to the director of the Bureau of Engraving and Printing (BEP).
- Each November, Board staff estimates expenses for the currency budget, including printing expenses (based on billing rates provided by the BEP), currency transportation expenses, counterfeit-deterrence research expenses, BEP's Finance Directorate operations expenses, and estimated expenses for other currency-related initiatives.
- The Committee on Federal Reserve Bank Affairs reviews the proposed currency budget.
- Staff submits the proposed currency budget to the Board for its consideration and approval.
- On a monthly basis, Board staff monitors expenses and compares these expenses to the budget. ■

Appendix B

Priced Services

The Monetary Control Act of 1980 requires the Federal Reserve to charge depository institutions for certain services. 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). To calculate the PSAF, the Federal Reserve Banks impute the costs that would have been incurred, such as taxes that would have been paid, and the profits that would have been earned (return on equity) had the priced services been provided by a private business firm.

Annual Pricing Process

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

Fees for Federal Reserve services must be approved by the product director for the respective service, by the Reserve Banks' Financial Services Policy Committee (FSPC), and, ultimately, by the Board of Governors.¹

The cost of float is projected by applying the federal funds rate to an esti-

mate of the level of float to be generated in the coming year. The PSAF targeted return-on-equity (ROE) capital is based on a capital-asset pricing model using data from the equity market as a whole. The ROE is applied to the level of priced services equity that is imputed to finance the assets the Federal Reserve expects to use in providing priced services in the coming year. Estimates of income taxes are based on the tax rates derived from the financial data of the 50 largest U.S. bank holding companies, based on deposit balances.

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 (based on 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 related to priced services.²

To estimate net income on clearing balances, the priced services investment income is imputed and netted with related direct costs associated with clearing balances. The pro forma financial statements for the priced services are

1. The product directors are those first vice presidents at selected Reserve Banks with responsibility for management of specific services. The FSPC is responsible for the overall direction of financial services for the Federal Reserve Banks.

2. On March 31, 2009, the Board of Governors requested public comment on a proposal to replace the current correspondent bank model underlying the PSAF calculation with a model based on elements derived from publicly traded firms more broadly. The Board is currently analyzing further the proposed publicly traded firm model and an alternate model based on a peer group of publicly traded payments processors that was suggested by several commenters.

presented in the *2009 Annual Report of the Board of Governors of the Federal Reserve System*. (available at www.federalreserve.gov/boarddocs/rptcongress/default.htm). ■

Appendix C

Expenses and Employment at the Board of Governors

Table C.1 Operating Expenses of the Board of Governors, by Division, Office, or Special Account, 2006–2010

Millions of dollars

Division, office, or special account	2006–07 (budgeted)	2006–07 (actual)	2008–09 ¹ (budgeted)	2008–09 (actual)	2010 (budgeted)
Board Members	26.4	24.7	29.4	28.5	17.3
Secretary	12.4	12.3	14.6	14.4	8.1
Staff Director for Management	16.8	18.9	21.4	20.9	11.4
Research and Statistics	82.7	81.2	98.3	97.3	52.7
International Finance	32.0	29.1	37.2	34.6	19.9
Monetary Affairs	28.4	27.6	34.3	34.2	23.2
Banking Supervision and Regulation	99.4	96.8	113.7	116.8	62.0
Consumer and Community Affairs	29.5	30.8	41.8	41.8	26.1
Legal	26.1	23.1	30.5	30.3	17.5
Reserve Bank Operations and Payment Systems	51.4	49.8	64.2	59.1	33.2
Information Technology	91.2	89.5	105.1	104.4	61.7
Management Division	122.2	127.4	155.8	157.0	90.0
Information Resources Management income account ..	–39.8	–39.5	–44.8	–45.1	–28.9
Residual retirement	9.8	13.5	13.3	19.8	9.9
Special projects	12.0	7.9	14.3	16.2	10.7
Extraordinary items	9.0	8.3	7.3	5.5	10.2
Total, Board operations	609.5	601.4	736.4	735.6	425.0
Office of Inspector General (OIG)	10.2	9.5	14.0	12.4	19.2

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

1. 2008–09 budgeted figures include \$30.1 million and \$1.3 million added to the Board's and the OIG's respective operating budgets during 2009.

Table C.2 Operating Expenses of the Board of Governors, by Account Classification, 2006–2010

Millions of dollars

Account classification	2006–07 (budgeted)	2006–07 (actual)	2008–09 ¹ (budgeted)	2008–09 (actual)	2010 (budgeted)
<i>Personnel services</i>					
Salaries	380.2	372.7	453.5	454.4	252.5
Retirement	35.7	38.8	50.3	53.1	34.2
Insurance	31.4	35.3	38.5	44.1	22.6
Subtotal	447.3	446.8	542.3	551.6	309.3
<i>Goods and services</i>					
Travel	15.7	17.2	18.9	20.4	9.7
Postage and shipping	1.0	1.0	1.2	1.0	0.5
Telecommunications	10.8	9.8	10.2	10.2	4.4
Printing and binding	2.7	2.6	3.0	3.3	1.5
Publications	1.2	0.9	1.1	1.1	0.5
Stationery and supplies	2.3	2.5	2.9	3.1	1.5
Software	14.6	13.3	15.6	15.9	8.6
Furniture and equipment	7.5	8.1	8.5	8.0	5.5
Rentals	1.2	1.1	5.9	6.7	7.4
Books and subscriptions	2.0	1.7	1.9	1.7	1.0
Utilities	7.8	8.3	8.4	8.5	4.0
Building repairs and alterations	4.6	4.0	4.8	5.1	2.0
Furniture repairs and maintenance	2.5	2.6	3.0	3.2	1.6
Contingency processing center expenses	1.7	2.2	2.4	2.4	1.3
Contractual professional services	62.8	59.8	81.0	69.1	49.5
Tuition/registration and membership fees	4.8	5.2	6.6	5.9	3.9
Subsidies and contributions	1.3	1.4	2.6	2.7	1.1
Depreciation	28.8	26.6	28.9	27.5	15.8
All other ²	(11.4)	(13.7)	(12.8)	(11.7)	(4.1)
Subtotal	162.2	154.6	194.1	184.0	115.7
Total, Board operations³	609.5	601.4	736.4	735.6	425.0
Office of Inspector General (OIG)	10.2	9.5	14.0	12.4	19.2

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

1. 2008–09 budgeted figures include \$30.1 million and \$1.3 million added to the Board's and the OIG's respective operating budgets during 2009.

2. All other includes, among other items, income from outside agencies for data processing services, rental income, and transportation subsidy benefits for employees.

3. Includes extraordinary items.

Table C.3 Positions Authorized at the Board of Governors, by Division, Office, or Special Account, 2006–2010

Division, office, or special account	Position count ¹				
	2006–07 (initial)	2006–07 (ending)	2008–09 (initial)	2008–09 (ending)	2010 (budgeted)
Board Members.....	78	80	81	86	88
Secretary	50	50	50	51	51
Staff Director for Management.....	45	46	48	48	48
Research and Statistics	275	275	285	290	296
International Finance	116	114	115	115	115
Monetary Affairs.....	75	78	81	88	95
Banking Supervision and Regulation.....	254	258	253	283	283
Consumer and Community Affairs	94	101	105	114	120
Legal.....	80	80	80	80	86
Reserve Bank Operations and Payment Systems ...	139	138	138	138	138
Information Technology ²	301	318	318	353	353
Management Division ³	469	487	487	520	517
Total, Board	1,976	2,025	2,041	2,166	2,190
Office of Inspector General	36	36	37	45	61

NOTE: Includes only those divisions, offices, and special accounts that have authorized position counts.

1. Excludes summer interns.

2. Includes positions that support the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

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

Appendix D

Expenses and Employment at the Federal Reserve Banks

Table D.1 Operating Expenses of the Federal Reserve Banks, by District, 2009 and 2010
Thousands of dollars, except as noted

District	2009 (budgeted)	2009 (actual)	2010 (budgeted)	Percent change	
				2009 actual compared with 2009 budgeted	2010 budgeted compared with 2009 actual
Boston	153,479	154,088	160,841	0.4	4.4
New York	646,993	750,240	791,329	16.0	5.5
Philadelphia	152,724	153,070	148,493	0.2	-3.0
Cleveland	171,007	176,012	168,410	2.9	-4.3
Richmond	283,005	276,860	294,937	-2.2	6.5
Atlanta	387,155	353,214	354,324	-8.8	0.3
Chicago	274,078	264,640	275,191	-3.4	4.0
St. Louis	222,717	210,690	222,488	-5.4	5.6
Minneapolis	154,652	150,757	150,245	-2.5	-0.3
Kansas City	169,232	172,726	173,306	2.1	0.3
Dallas	182,399	186,564	185,729	2.3	-0.4
San Francisco	288,730	293,675	296,001	1.7	0.8
Total	3,086,172	3,142,535	3,221,295	1.8	2.5

NOTE: Excludes capital outlays. Includes expenses budgeted by Federal Reserve Information Technology and the System's Office of Employee Benefits. Reflects all redistributions for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

Table D.2 Employment at the Federal Reserve Banks, by District, and at FRIT and OEB, 2009 and 2010

Average number of personnel

District	2009 (budgeted)	2009 (actual)	2010 (budgeted)	Amount change	
				2009 actual compared with 2009 budgeted	2010 budgeted compared with 2009 actual
Boston.....	899	884	876	-15	-8
New York.....	2,877	2,978	3,066	101	88
Philadelphia.....	1,009	932	868	-77	-64
Cleveland.....	1,367	1,359	1,312	-8	-47
Richmond.....	1,638	1,584	1,509	-54	-75
Atlanta.....	1,776	1,755	1,717	-21	-38
Chicago.....	1,339	1,314	1,297	-25	-17
St. Louis.....	964	943	962	-21	19
Minneapolis.....	1,082	1,070	1,018	-12	-52
Kansas City.....	1,213	1,233	1,189	20	-44
Dallas.....	1,235	1,207	1,204	-28	-3
San Francisco.....	1,686	1,650	1,610	-36	-40
Total, all Districts.....	17,086	16,910	16,628	-176	-282
Federal Reserve Information Technology (FRIT).....	889	925	904	36	-21
Office of Employee Benefits (OEB).....	45	45	47	0	2
Total.....	18,020	17,880	17,578	-140	-302

NOTE: The term *average number of personnel* (ANP) describes levels and changes in employment. 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. Components may not sum to totals and may not yield variances shown because of rounding.

Table D.3 Operating Expenses of the Federal Reserve Banks, FRIT, and OEB, by Operational Area, 2009 and 2010

Thousands of dollars, except as noted

Operational area	2009 (budgeted)	2009 (actual)	2010 (budgeted)	Percent change	
				2009 actual compared with 2009 budgeted	2010 budgeted compared with 2009 actual
Monetary and economic policy.....	433,013	501,297	505,085	15.8	0.8
Services to the U.S. Treasury and other government agencies.....	442,978	429,658	444,370	-3.0	3.4
Services to financial institutions and the public.....	837,378	880,714	980,753	5.2	11.4
Supervision and regulation.....	714,224	725,253	784,209	1.5	8.1
Fee-based services to financial institutions.....	658,578	605,613	506,877	-8.0	-16.3
Total.....	3,086,172	3,142,535	3,221,294	1.8	2.5

NOTE: Excludes capital outlays. Includes expenses budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB). Reflects all redistributions for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

Table D.4 Employment at the Federal Reserve Banks, and of FRIT and OEB, by Operational Area, 2009 and 2010

Average number of personnel

Operational area	2009 (budgeted)	2009 (actual)	2010 (budgeted)	Amount change	
				2009 actual compared with 2009 budgeted	2010 budgeted compared with 2009 actual
Monetary and economic policy.....	1,067	1,081	1,125	15	44
Services to U.S. Treasury and other government agencies	1,140	1,112	1,091	-28	-21
Services to financial institutions and the public	2,517	2,578	2,634	61	56
Supervision and regulation.....	2,785	2,863	2,996	78	133
Fee-based services to financial institutions	1,033	837	386	-197	-451
Local support and overhead.....	6,507	6,461	6,446	-46	-15
National consolidated support.....	2,140	2,088	2,059	-52	-29
Centralized service providers.....	831	861	841	30	-20
Total	18,020	17,880	17,578	-140	-302

NOTE: Components may not sum to totals and may not yield variances shown because of rounding.
FRIT, Federal Reserve Information Technology; OEB, Office of Employee Benefits.

Table D.5 Expenses of the Federal Reserve Banks for Salaries of Officers and Employees, by District, 2009 and 2010

Thousands of dollars, except as noted

District	2009 (budgeted)	2009 (actual)	2010 (budgeted)	Percent change	
				2009 actual compared with 2009 budgeted	2010 budgeted compared with 2009 actual
Boston.....	78,925	78,620	80,956	-0.4	3.0
New York.....	325,011	334,674	361,761	3.0	8.1
Philadelphia.....	71,544	68,294	68,108	-4.5	-0.3
Cleveland.....	85,802	85,701	86,624	-0.1	1.1
Richmond.....	119,514	117,220	118,995	-1.9	1.5
Atlanta	130,786	131,216	135,339	0.3	3.1
Chicago	111,039	109,587	115,311	-1.3	5.2
St. Louis.....	73,757	72,508	76,875	-1.7	6.0
Minneapolis.....	73,570	72,314	72,260	-1.7	-0.1
Kansas City.....	87,848	87,277	88,613	-0.6	1.5
Dallas	83,535	82,423	85,086	-1.3	3.2
San Francisco.....	146,594	145,259	147,823	-0.9	1.8
Total, all Districts	1,387,925	1,385,094	1,437,751	-0.2	3.8
Federal Reserve Information Technology.....	83,826	87,353	89,025	4.2	1.9
Office of Employee Benefits	5,558	5,545	5,902	-0.2	6.4
Total	1,477,309	1,477,992	1,532,677	0.0	3.7

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

Table D.6 Capital Outlays of the Federal Reserve Banks, by District, and of FRIT and OEB, 2009 and 2010

Thousands of dollars, except as noted

District	2009 (budgeted)	2009 (actual)	2010 (budgeted)	Percent change	
				2009 actual compared with 2009 budgeted	2010 budgeted compared with 2009 actual
Boston.....	27,241	18,114	21,191	-33.5	17.0
New York.....	154,713	131,037	112,627	-15.3	-14.0
Philadelphia.....	21,648	20,947	16,055	-3.2	-23.4
Cleveland.....	11,669	11,870	12,014	1.7	1.2
Richmond.....	32,224	29,163	27,806	-9.5	-4.7
Atlanta.....	36,735	18,708	27,974	-49.1	49.5
Chicago.....	23,259	17,377	36,081	-25.3	107.6
St. Louis.....	21,507	16,621	20,082	-22.7	20.8
Minneapolis.....	10,444	11,552	13,547	10.6	17.3
Kansas City.....	7,152	4,433	8,636	-38.0	94.8
Dallas.....	29,729	17,238	25,324	-42.0	46.9
San Francisco.....	62,239	38,292	44,771	-38.5	16.9
Total, all Districts.....	438,560	335,351	366,106	-23.5	9.2
Federal Reserve Information Technology (FRIT).....	79,758	31,637	64,093	-60.3	102.6
Office of Employee Benefits (OEB).....	1,050	2,094	4,228	99.4	101.9
Total.....	519,368	369,082	434,428	-28.9	17.7

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

Table D.7 Capital Outlays of the Federal Reserve Banks, FRIT, and OEB, by Asset Classification, 2009 and 2010

Thousands of dollars, except as noted

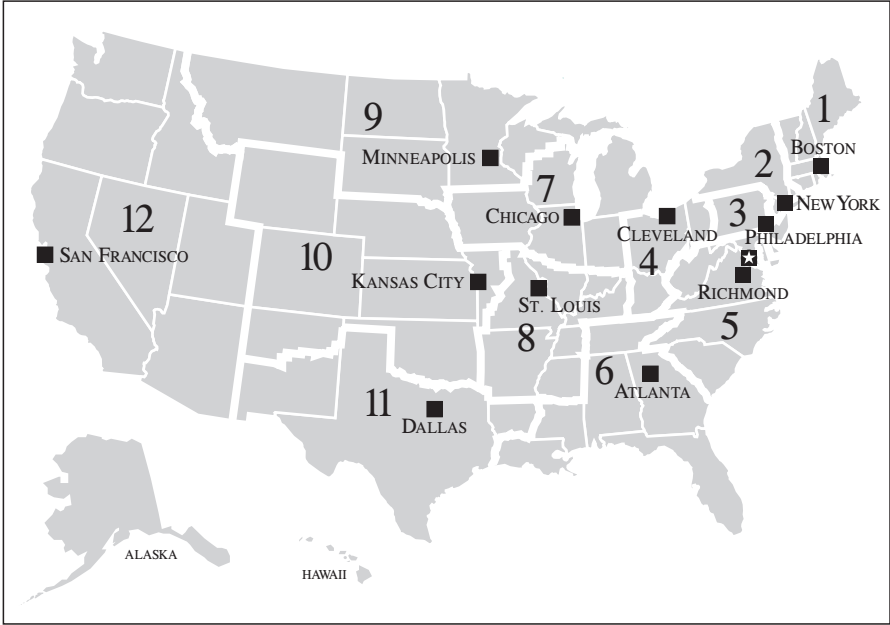
Asset classification	2009 (budgeted)	2009 (actual)	2010 (budgeted)	Percent change	
				2009 actual compared with 2009 budgeted	2010 budgeted compared with 2009 actual
Equipment.....	150,235	93,159	124,046	-38.0	33.2
Furniture, furnishings, and fixtures.....	24,789	17,421	31,876	-29.7	83.0
Land and other real estate.....	4,415	5,244	2,808	18.8	-46.5
Building.....	147,069	131,005	124,399	-10.9	-5.0
Building machinery and equipment.....	45,002	21,788	44,960	-51.6	106.4
Leasehold improvements.....	3,065	3,674	2,228	19.9	-39.4
Software.....	143,988	96,274	103,242	-33.1	7.2
Art.....	805	517	868	-35.7	67.7
Total.....	519,368	369,082	434,428	-28.9	17.7

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

FRIT, Federal Reserve Information Technology; OEB, Office of Employee Benefits.

*Maps of the
Federal Reserve System*

Maps of the Federal Reserve System



LEGEND

Both pages

- Federal Reserve Bank city
- ☆ Board of Governors of the Federal Reserve System, Washington, D.C.

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 2009.

