Annual Report: Budget Review

Board of Governors of the Federal Reserve System

1992–93

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Introduction

Federal Reserve Budget Process and Operational Areas

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

As the nation's central bank, the Federal Reserve has many, varied responsibilities: It acts to ensure growth of the nation's economy consistent with price stability; it serves as the nation's lender of last resort, with responsibility for forestalling national liquidity crises; and it is involved in bank supervision and regulation, with responsibilities for bank holding companies, state-chartered banks that are members of the Federal Reserve System, the foreign activities of U.S. banks, and the U.S. activities of foreign banks. The Federal Reserve also administers the nation's consumer credit protection laws.

The Federal Reserve System also plays a major role in the nation's payments mechanism. The Reserve Banks distribute currency and coin, provide wire and automated clearinghouse transfers of funds and securities, and process approximately one-third of all domestic checks. The Federal Reserve also serves as the fiscal agent for the U.S. Treasury and provides a variety of other financial services for the Treasury and other government agencies.

In carrying out its responsibilities in 1992, the Federal Reserve System spent an estimated $1.7 billion and earned an estimated $947 million in operating revenue from priced services, reimbursements, and other income, for a total of $778 million in net operating expenses. The major source of Federal Reserve income is earnings on the portfolio of U.S. government securities in the System Open Market Account, estimated at $17.3 billion in 1992. Earnings in excess of expenses, dividends, and surplus—in 1992, an estimated $16.8 billion—are returned to the U.S. Treasury. (These earnings are treated as receipts in the U.S. budget accounting system, and projections of the earnings by the Office of Management and Budget appear in the U.S. budget.)

The Budget Process

The Board of Governors and the Reserve Banks have separate budgets and budgeting processes.

Board of Governors

All levels of Board management are involved in a planning and budgeting process that begins in the spring with development of a budget guideline and extends through November of each year. The administrative governor, under authority delegated by the Chairman, oversees the process until the budget is submitted to the Board of Governors for action at an open meeting in November.

The Board budget is structured in four operational areas (described in the next section). Costs for data processing are distributed to the four areas according to use; expenses for other elements of support and overhead are allocated to the four areas in proportion to the share of direct costs attributable to each area. The Board, in accordance with generally accepted accounting principles, capitalizes assets and depreciates their value over appropriate time periods instead of expensing them in the year of purchase. Hence, the Board has both an operations and a capital budget.

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 budget is also presented to the Board of Governors for action at an open meeting in November. (The OIG is discussed in appendix C.)

After the Board budget is approved, the cash requirement for the first half of the calendar year is estimated and the amount is raised by an assessment on each of the Reserve Banks in proportion to its capital stock and surplus. The cash requirement for the second half of the year is estimated in June, and the second assessment is made in July. To minimize cash balances held by the Board, funds are transferred quarterly.

Reserve Banks

Each year the Federal Reserve Banks, like the Board, establish major operating goals for the coming year, devise strategies for their attainment, estimate required resources, and monitor results. As with the Board, the process begins with development of a budget guideline. The Board of Governors reviews the proposed level of spending and communicates the budget objective to the Reserve Banks for their guidance. Each Bank then develops its own budget. The budgets are reviewed at the Board, both as separate documents and in light of Systemwide issues and the plans of the other Banks, before they are presented to the Board of Governors for final action at an open meeting in December.

The Banks' budgets are also structured in four operational areas (described in the next section), with support and overhead allocated to the operational areas. Approved separately from the budget process, which focuses on operational costs, are special projects, which are long-range research and development efforts that have the potential to make a major improvement in the nation's payments mechanism or in the Federal Reserve's ability to provide services (special projects for 1993 are described in appendix A).

The operations and financial performance of the Reserve Banks are monitored throughout the year via a cost-accounting system, the Planning and Control System (PACS), which was implemented by the Banks in 1977. Under PACS, the costs of all Reserve Bank services—priced and nonpriced, special and routine—are grouped by operational area, and the costs of support and overhead are allocated to the four areas. (The services assigned to each of the operational areas are listed in chapter 3, tables 3.7 through 3.10.) PACS makes it possible to compare budgets with actual expenses and enables the Board of Governors to compare the financial and operating performances of the Reserve Banks.

Operational Areas

For budgeting purposes, the Board of Governors and the Reserve Banks account for their activities in four major operational areas. Three of the areas—monetary and economic policy, services to financial institutions and the public, and supervision and regulation of financial institutions—are common to the Board and the Banks. The Banks' fourth operational area is services to the U.S. Treasury and other government agencies, and the Board's fourth area is System policy direction and oversight.

Monetary and Economic Policy

The monetary and economic policy operational area encompasses Federal Reserve actions to influence the availability and cost of money and credit in the nation's economy. These actions include setting reserve requirements, setting the discount rate (which affects the cost of borrowing), and conducting open market operations.

A vast amount of banking and financial data flows through the Reserve Banks to the Board, where it is compiled and made available to the public. The research staffs at the Board and the Banks use these data, along with information collected by other public and private institutions, to assess the state of the economy and the relationships between the financial markets and economic activity. Staff members provide background information for the Board of Governors and for each meeting of the FOMC by preparing detailed economic and financial analyses and projections for the domestic economy and international markets. They also conduct longer-run economic studies of regional, national, and international issues.

Services to Financial Institutions and the Public

The Federal Reserve System plays a central role in the nation's payments mechanism, which is composed of many independent systems that move funds among financial institutions across the country. The Reserve Banks obtain currency and coin from the Bureau of Engraving and Printing and from the Mint and distribute it to the public through depository institutions; they also identify counterfeits and destroy currency that is unfit for circulation. In 1992 the Reserve Banks distributed $306.8 billion in currency and $4.4 billion in coin and destroyed $96.7 billion in unfit currency.

The Reserve Banks (along with their Branches and regional centers) also process checks for collection—approximately 18.8 billion checks each year with an average daily value of more than $50 billion.

The Federal Reserve also plays a central role in the nation's payments mechanism through its wire transfer system, Fedwire. Through Fedwire, depository institutions can draw on their reserves or clearing accounts at the Reserve Banks and transfer funds anywhere in the country. Approximately 7,790 depository institutions use Fedwire through direct computer connections with Reserve Banks, and another 3,408 institutions use Fedwire through off-line means such as telephone. In 1992, approximately 67 million transfers valued at about $200 trillion were sent over Fedwire, an average of $2.9 million per transfer and $800 billion per day.

The Federal Reserve allows participants in private clearing arrangements to exchange and settle transactions on a net basis through reserve or clearing-account balances. Users of net settlement services include local check clearinghouse associations, automated clearinghouse (ACH) networks, credit card processors, automated teller machine networks, and national and regional funds and securities transfer networks. In 1992, approximately 650,000 net settlement entries for participants in small-dollar clearing arrangements were processed by the Reserve Banks.

Approximately 27,350 depository institutions participate in the Federal Reserve's ACH service, which allows them to send or receive payments electronically instead of by check. The depository institutions use the ACH service for credit and debit transactions. Of the approximately 7,900 ACH endpoints, 5,950 have electronic connections with the Federal Reserve; the others receive payment data via magnetic tapes or paper registers. In 1992 the Reserve Banks processed more than 1.85 billion ACH transactions valued at about $8.45 trillion; approximately 28 percent of the transactions were for the federal government, and the rest were for commercial establishments.

The securities services provided by the Reserve Banks cover the handling of book-entry and definitive securities and the collection of coupons and miscellaneous items. The book-entry service, begun in 1968, enables holders of government agency securities to transfer them electronically to other institutions throughout the country. The Reserve Banks maintained approximately 14,593 book-entry accounts in 1992 and processed approximately 11.7 million securities transfers.

Through the definitive securities service, the Reserve Banks store physical securities not eligible for maintenance on the Federal Reserve's book-entry system. The Federal Reserve held about $10.9 billion of such securities in priced accounts at the end of 1992.

Through its noncash collection service, the Federal Reserve presents coupons, bonds, and miscellaneous items for collection. Coupon collection, which accounts for approximately 98 percent of the transactions in this service category, amounted to 2.3 million coupon envelopes in 1991 and about 1.6 million coupon envelopes in 1992

Supervision and Regulation

The Federal Reserve System plays a major role in the supervision and regulation of banks and bank holding companies. The Board of Governors adopts regulations to carry out statutory directives and establishes System supervisory and regulatory policies; the Reserve Banks conduct on-site examinations and inspections of state member banks and bank holding companies, review applications for mergers, acquisitions, and changes in control from banks and bank holding companies, and take formal supervisory actions. In 1992 the Board and the Reserve Banks examined approximately 815 state member banks, inspected approximately 2,091 bank holding companies and their subsidiaries, and acted on a total of 2,967 international and domestic applications.

The Board also enforces compliance by state member banks with the federal laws protecting consumers in their use of credit. In 1992 the System conducted approximately 601 compliance examinations.

The Board's supervisory responsibilities also extend to foreign operations of U.S. banks and, under the International Banking Act, to U.S. operations of foreign banks.

Beyond these activities, the Federal Reserve maintains continuous oversight of the banking industry to ensure the overall safety and soundness of the financial system. This broader responsibility is reflected in the System's presence in financial markets, through open market operations, and in the Federal Reserve's role as lender of last resort.

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

The U.S. government uses the Federal Reserve as its bank. Through deposit accounts at the Reserve Banks, the government issues checks and payments and collects receipts. The Reserve Banks also process wire transfers of funds and automated clearinghouse payments and give the Treasury daily statements of account activity.

Beyond these typical depository activities, the Reserve Banks provide several unique services to the government. They monitor the tax receipts deposited in the 12,967 tax and loan accounts maintained by depository institutions designated to perform this function, they hold the collateral that those institutions pledge to support these and other government deposits, and they transfer funds to the Treasury's account at its request. The Reserve Banks assist the Treasury in its financing of the public debt by issuing, servicing, and redeeming all marketable Treasury securities as well as all U.S. savings and retirement plan bonds. The Reserve Banks also redeem food coupons for the U.S. Department of Agriculture and destroy them.

System Policy Direction and Oversight

This operational area encompasses activities by the Board of Governors to supervise Board and Reserve Bank programs. Expenses for these activities are considered overhead expenses of the System, and therefore are allocated across the other operational areas. ■

Part I

The 1993 Budgets

Chapter 1

Federal Reserve System

For 1993, the Federal Reserve System has budgeted net operating expenses of $886.7 million. It expects to realize $784.1 million, or 42.1 percent of total budgeted operating expenses, from revenues from priced services. Total operating expenses are budgeted at $1,862.9 million, an increase of 8.0 percent over estimated 1992 expenses (table 1.1). This total includes $1,722.5 million for the Reserve Banks and $140.4 million for the Board of Governors.

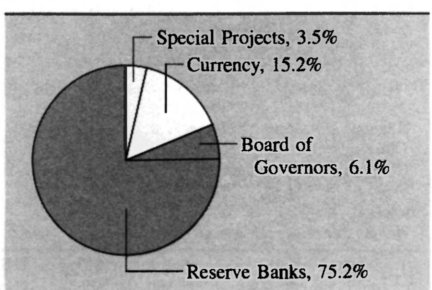
Not included in these expenses are Reserve Bank special projects, budgeted at $80.3 million for 1993, up from $32.6 million estimated for 1992.[1] Also excluded is the budgeted cost of currency at $347.3 million for 1993, an increase of 17.7 percent over the estimated 1992 cost of $295.1 million.[2] The distribution of expenses is similar to that in previous years, with the Reserve Banks accounting for approximately three-fourths of the total (chart 1.1).[3]

Net Expenses

The System expects to recover 52.4 percent of the expenses it incurs during 1993. The following items are deducted from System operating expenses to derive net expenses: (1) revenue from priced payments mechanism services provided to depository institutions, (2) other income from services on behalf of the U.S. Treasury that are paid for by depository institutions using the services, and (3) claims for reimbursement by the U.S. Treasury and other government agencies for fiscal agency services. After these items are deducted, the net expenses of the System of $886.7 million show an increase of 13.9 percent over net System operating expenses estimated for 1992 (table 1.2).

The receipts from priced services represent fees that are set to recover the full cost of providing these services to depository institutions (as required by the Monetary Control Act of 1980), including the imputed costs of float and the return on capital that would have

Chart 1.1
Distribution of Expenses of the Federal Reserve System, 1993[1]



1. See text notes 1 and 2.

1. As research and development efforts, special projects are separate from the continuing operations of the System and therefore are not included in System operating expenses. These relatively costly, short-term projects are expected to benefit both the System and the banking industry as a whole. A description of special projects for 1993 appears in appendix A.

2. The Federal Reserve bears the cost associated with printing new currency at the Bureau of Engraving and Printing. Because this cost is determined largely by public demand for new currency, it is not included in Federal Reserve operating expenses. See appendix A.

3. A fourth category of expense, capital outlays, is treated separately; see chapters 2 and 3 and appendix A.

been received and the taxes that would have been paid had a commercial entity in the private sector furnished the services. The revenue from priced services is detailed in table 1.3; the constraint imposed on Federal Reserve budgets by the need to keep such services competitive and the calculation of fees are discussed in appendix A. All sources and uses of funds are presented in appendix B, and the audits of the System are listed in appendix C.

"Other income" includes fees from such services as settlement of transfers among depository institutions and wire transfer of funds between depository

Table 1.1

Expenses of the Federal Reserve System for Operations, Special Projects, and Currency, 1991–93[1]

Millions of dollars, except as noted

Entity and type of expense	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Reserve Banks[2]	1,493.9	1,596.3	1,722.5	6.9	7.9
Personnel	967.7	1048.8	1,150.0	8.4	9.6
Nonpersonnel	526.2	547.5	572.5	4.0	4.6
Board of Governors[3]	111.7	128.9	140.4	15.4	8.9
Personnel	86.6	94.9	105.1	9.6	10.7
Nonpersonnel	25.1	34.0	35.3	35.5	3.8
Total System operating expenses	**1,605.6**	**1,725.2**	**1,862.9**	**7.4**	**8.0**
Personnel	**1,054.3**	**1,143.7**	**1,255.1**	**8.5**	**9.7**
Nonpersonnel	**551.3**	**581.5**	**607.8**	**5.5**	**4.5**
Special projects[4]	6.7	32.6	80.3	...	...
Currency[5]	261.3	295.1	347.3	12.9	17.7

1. In this and subsequent tables in this volume, details may not sum to totals and may not yield percentages shown because of rounding.
2. For detailed information, see chapter 3.
3. Includes expenses of the Office of Inspector General and extraordinary items. For detailed information, see chapter 2.
4. See text note 1 and appendix A.
5. See text note 2 and appendix A.

Table 1.2

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 1991–93

Millions of dollars, except as noted

Item	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Total System operating expenses	1,605.6	1,725.2	1,862.9	7.4	8.0
LESS					
Revenue from priced services	750.0	767.6	784.1	2.3	2.1
Other income[1]	18.6	5.3	5.4	–71.5	1.9
Claims for reimbursement[2]	152.1	174.0	186.7	14.4	7.3
EQUALS					
Net System operating expenses	**684.9**	**778.3**	**886.7**	**13.6**	**13.9**

1. Before January 1992, fees for transfer of U.S. Treasury book-entry securities were included in other income; now they are forwarded directly to the U.S. Treasury general account.
2. Costs of fiscal agency services provided to the U.S. Treasury and other government agencies for which the agencies have agreed to reimburse the Federal Reserve. In practice, not all these claims are paid.

Table 1.3
Revenue from Priced Services, 1991–93
Millions of dollars

Service	1991 actual	1992 estimate	1993 budget
Funds transfers and net settlement	79.1	86.5	90.6
Automated clearinghouse services	58.1	60.5	61.5
Commercial checks	571.8	583.4	603.0
Book-entry securities transfers	11.6	13.1	14.2
Definitive securities safekeeping	4.2	3.3	2.1
Noncash collection	9.8	7.8	5.9
Special cash services	15.4	13.0	6.8
Total	**750.0**	**767.6**	**784.1**

institutions and the Treasury. Claims for reimbursement represent expenses incurred by Reserve Banks in providing fiscal agency services to the Treasury and other government agencies for which the agencies have agreed to reimburse the Federal Reserve.

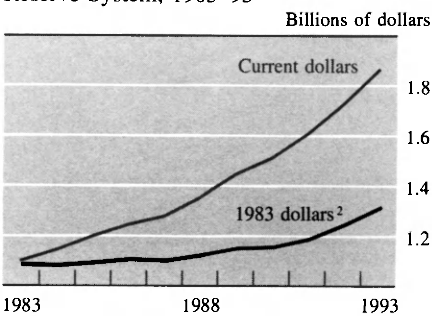
Trends in Expenses and Employment

From 1983 (actual expenditures) to 1993 (amount budgeted), the expenses of the Federal Reserve System have increased an average of 5.4 percent per year in current dollars and 1.8 percent per year when adjusted for inflation (chart 1.2). Over the same ten-year period, System employment, including staff working on special projects, has increased 1,803 (chart 1.3).

From 1982, when the transition to the requirements of the Monetary Control Act was completed, through 1984, System expenses remained essentially flat when adjusted for inflation, and employment declined. In 1985, the staffing level was increased in a pronounced effort to strengthen supervision and regulation of member banks and bank holding companies. The System was able to partially offset the increase in staff through reductions in employment in other areas, primarily in services to financial institutions and the public and in support and overhead.

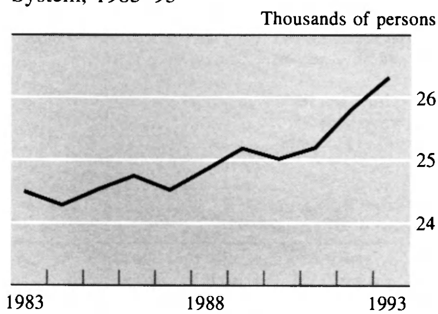
In 1988, the Expedited Funds Availability Act, which requires the Federal Reserve to issue regulations to ensure the prompt availability of funds and the expeditious return of checks, became effective. Increases in staff throughout the System in 1988 and 1989 resulted from implementation of the provisions of this legislation. In 1991 and continuing through projected 1993, spending on

Chart 1.2
Operating Expenses of the Federal Reserve System, 1983–93[1]



1. For 1992, estimate; for 1993, budget.
2. Calculated with the GDP price deflator.

Chart 1.3
Employment in the Federal Reserve System, 1983–93[1]



1. For 1992, estimate; for 1993, budget. Includes special project staff.

bank supervision grew, reflecting an increase in the number and complexity of examinations, greater attention to problem institutions, passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), and passage of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

Operational Areas

For budgeting purposes, expenses of the Federal Reserve are classified according to the four major operational areas of the System (see table 1.4). The costs for support and overhead (including Board expenditures for System policy direction and oversight, considered an overhead expense of the System) are redistributed or allocated to these four areas.

1993 Budget Initiatives

Several major initiatives will continue or begin in 1993:

- Improvement of facilities at several Reserve Banks and Branches will continue.
- The upward pressure on expenses and staffing associated with supervision and regulation activities will carry over from 1992 because of expanded responsibilities mandated by the FDICIA.
- Projects related to office automation and consolidation of System automation will continue.

Partly offsetting the increased expenses associated with these initiatives will be productivity and operational improvements in a number of areas. ▪

Table 1.4
Operating Expenses of the Federal Reserve System, by Operational Area, 1991–93[1]

Millions of dollars, except as noted

Operational area and entity	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Monetary and economic policy	175.0	185.6	198.5	6.1	7.0
Reserve Banks	106.7	110.5	119.6	3.6	8.2
Board of Governors	68.3	75.1	78.9	10.0	5.1
Services to the U.S. Treasury and other government agencies[2]	169.5	181.4	196.7	7.0	8.5
Services to financial institutions and the public	984.0	1,030.7	1,088.4	4.8	5.6
Reserve Banks	980.4	1,027.6	1,084.9	4.8	5.6
Board of Governors	3.6	3.1	3.5	−13.9	12.9
Supervision and regulation	277.3	327.4	379.2	18.1	15.8
Reserve Banks	237.4	276.7	321.2	16.6	16.1
Board of Governors	39.9	50.7	58.0	27.1	14.4
Total	**1,605.6**	**1,725.2**	**1,862.9**	**7.4**	**8.0**
Reserve Banks	**1,493.9**	**1,596.3**	**1,722.5**	**6.8**	**7.9**
Board of Governors[3]	**111.8**	**128.9**	**140.4**	**15.4**	**8.9**

1. Operating expenses reflect all allocations for support and overhead and exclude capital outlays. The operational area unique to the Board of Governors, System policy direction and oversight, which is shown separately in chapter 2, has been allocated across the operational areas listed here. As a result, the numbers for the operational areas in chapter 2 are not the same as the numbers shown in this table.

2. Reserve Banks only. The Board of Governors does not provide these services.

3. Includes expenses of the Office of Inspector General and extraordiary items.

Chapter 2

Board of Governors

The 1993 budget of the Board of Governors provides $137.0 million for operations, $0.3 million for extraordinary items (projects of a unique or one-time nature), and $3.2 million for the Office of Inspector General. The Board authorized 1,683 positions for operations and 32 positions for the Office of Inspector General; no positions are required for the extraordinary items. The total budget of $140.4 million represents an increase of $11.6 million, or approximately 8.9 percent, over estimated 1992 expenses. The total of 1,715 positions is an increase of 36 over the number authorized at the end of 1992. The 1993 budgeted expenses and staffing for the OIG, considerably higher than for 1992, reflect an expansion of responsibilities for auditing both the supervision and regulation function and Board responsibilities for System activities.

Overview of the Budget

Board Operations

The operations budget of $137.0 million, which covers the Board's four operational areas, is 10.7 percent greater than estimated 1992 expenses. Approximately one-third of the increase is attributable to ongoing activities. The remainder is due to increased nondiscretionary requirements, including the following: (1) full-year costs in 1993 for positions added in 1992 in response to developments in the financial industry, implementation of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and a need to improve the quality of economic data; (2) costs resulting from the recent expansion and reorganization of the Division of Consumer and Community Affairs to better meet the requirements of the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA); (3) increased staffing to support international activity in the monetary and economic policy area, particularly long-term research, and a growing workload resulting from the economic and political transformation of the former Soviet Union and Eastern Europe; (4) increased staff to support the growing workload in the payments systems and communications areas resulting from anticipated approval of new policies related to same-day presentment, pricing of daylight overdrafts, lengthening of the Fedwire day, and changes in rules for posting nonwire transactions; (5) staff, training, and other resources needed for determination of policies regarding over-the-counter derivatives; (6) improved automation capabilities, including software to facilitate movement of applications from the mainframe to distributed systems, increased data storage to extend the life of the mainframe, upgrading of the mainframe printing facility, and enhanced records management, HMDA mapping, financial management, and data security; and (7) additional leased office space to accommodate the growth in staff.

Extraordinary Items

The 1993 budget for extraordinary items is $0.3 million. Extraordinary items are not included in the Board's basic operating budget because the costs of these projects vary widely from year to year, resulting in large swings in the budget, as reflected in the decrease for 1993 (table 2.1).

Two projects are included in the 1993 extraordinary items budget. The first, allocated $100,000, is a survey of plant capacity to gather benchmark data for estimates of 1991 and 1992 manufacturing capacity utilization, to be published in the Federal Reserve Board monthly statistical release *Industrial Production and Capacity Utilization*. The second project, allocated $210,000, is an audit of the Federal Reserve Bank of Cleveland by a public accounting firm to ensure that controls and standards applied by the Reserve Banks in their internal audits are consistent with those applied by the accounting profession.

Office of Inspector General

The 1993 budget for the Office of Inspector General of $3,171,304 is 58.0 percent greater than estimated 1992 expenses. The increase funds the annual salary increase and ten new positions. Six positions have been added to meet new responsibilities suggested by the FDICIA, and other supervision and

Table 2.1
Expenses of the Board of Governors, by Division, Office, or Special Account, 1991–93

Division, office, or special account	1991 actual	1992 estimate	1993 budget	Change, 1991 to 1992		Change, 1992 to 1993	
				Amount	Percent	Amount	Percent
Board Members	3,168,366	3,999,873	4,149,463	831,507	26.2	149,590	3.7
Secretary	3,390,771	3,295,440	3,758,330	–95,331	–2.8	462,890	14.0
Legal	4,785,867	5,895,151	6,778,534	1,109,284	23.2	883,383	15.0
Research and Statistics	21,855,849	22,307,993	23,596,310	452,144	2.1	1,288,317	5.8
International Finance	7,651,563	7,911,292	8,586,751	259,729	3.4	675,459	8.5
Banking Supervision and Regulation	13,921,542	16,264,164	19,463,364	2,342,622	16.8	3,199,200	19.7
Human Resources Management	3,589,056	4,254,886	4,529,525	665,830	18.6	274,639	6.5
Support Services	18,718,396	21,159,907	23,368,486	2,441,511	13.0	2,208,579	10.4
Controller	1,864,141	1,970,671	2,182,072	106,530	5.7	211,401	10.7
Consumer and Community Affairs	3,318,317	3,800,653	4,534,474	482,336	14.5	733,821	19.3
Staff Director for Management	5,556,162	5,013,504	5,372,938	–542,658	–9.8	359,434	7.2
Reserve Bank Operations and Payment Systems	10,547,360	11,278,335	12,411,017	730,975	6.9	1,132,682	10.0
Information Resources Management (IRM)	20,193,241	22,367,899	24,076,049	2,174,658	10.8	1,708,150	7.6
Monetary Affairs	8,780,088	7,997,357	8,464,584	–782,731	–8.9	467,227	5.8
Special projects	1,975,174	1,602,113	2,262,263	–373,061	–18.9	660,150	41.2
IRM income account[1]	–19,507,087	–15,354,726	–16,523,402	4,152,361	21.3	–1,168,676	–7.6
Total, Board operations	**109,808,806**	**123,764,512**	**137,010,758**	**13,955,706**	**12.7**	**13,246,246**	**10.7**
Extraordinary items	373,333	3,161,000	310,000	2,787,667	...	–2,851,000	...
Office of Inspector General	1,568,102	2,007,673	3,171,304	439,571	28.0	1,163,631	58.0

1. Offsetting charge to Board divisions for use of central IRM resources.

regulation responsibilities, two have been added to enhance OIG auditing of Board activities to oversee the Reserve Banks and Board responsibilities for System activities, and one has been added to audit Board automation areas; one secretarial position has been added to support the staff.

Operations Budget

The Board operations budget for 1993 has been broken down into three major areas: current-level activities, consisting of funds required to maintain current operations; initiatives, consisting of funds for new projects and activities in 1993; and office space, unique to 1993, consisting of funds required to acquire additional office space for Board staff.

Current-Level Activities

The budget increment from 1992 to 1993 to sustain operations at the current level is $7.5 million, or 6.0 percent. The largest component of the increase is for compensation, including the full-year cost of salaries and benefits for a net of eighty-six new positions added in 1992.

The workload in the supervision and regulation area continues to grow, driven by legislation requiring greater supervision of foreign banks in the United States and U.S. banks in foreign countries, and by problems in the nation's financial industry. Examinations of foreign institutions are proving more time-consuming than examinations of domestic financial institutions; therefore, the level of resources required has increased even more than initially forecast. No positions have been added in 1993 to absorb the additional workload; however, fifty-six positions added to the Division of Banking Supervision and Regulation in 1992 required a significant amount of increased funding in 1993. The Legal Division added twelve positions in 1992 in response to the increased supervisory responsibility resulting from the Foreign Bank Supervisory Enhancement Act and to support a new Special Investigations and Examinations program in the Division of Banking Supervision and Regulation.

The Division of Consumer and Community Affairs added ten positions late in 1992 as part of an expansion and reorganization resulting from the increased workload associated with the development and analyses of HMDA data, actions to correct problems identified by those analyses, response to a higher volume of CRA protests, and other requirements.

As in 1992, approximately $3.2 million is included in the 1993 budget to support and manage the National Information Center (NIC) project. Funds will cover transition of current software to the NIC database as well as testing and acceptance of future releases of the file update/user access software that enhances data entry, data edits, and user access. Also covered by the budget is implementation of a new version of the Supervisory Information System (SIS), which allows examiners and financial analysts to upload, store, and download supervisory data to and from the NIC. The level of resources provided by the 1993 budget is necessary to maintain the 1994 completion schedule. Upon completion, maintenance of old systems will be discontinued, resulting in significant savings.

The budget also provides funds for routine facility maintenance and for scheduled projects. The level of funding for facilities in 1993 is less than that in the 1992 budget. Other significant expenditures for facilities are classified as initiatives.

Initiatives

The 1993 budget provides $3.8 million for initiatives, including increased staffing, improved automation capabilities, and some unscheduled repairs to the Board's facilities. The costs associated with initiatives, together with the current-level increase described in the preceding section, account for the increases in division budgets shown in table 2.1. Table 2.2 gives the number of authorized positions by division and office.

Office Space

The budget provides $2.3 million to lease approximately 38,000 square feet of space to meet interim needs of the Board, to reconfigure space in the Eccles/Martin complex, and to continue exploring acquisition of additional space. Other expense items include a limited number of parking spaces, furniture, communications and other support equipment, and an engineering study of the potential new site.

The Division of Information Resources Management has budgeted an additional $229,300 to provide automation support to staff moved off-site. This support includes an on-site mainframe printer, a local area network, and data communications capabilities.

Operations Budget by Object of Expense

The most significant item in the Board's 1993 budget is personnel expense, which accounts for 75 percent of operating expenses (table 2.3). The increase in the salary budget, $8.1 million, includes annual salary increases for current personnel, incremental funding for posi-

Table 2.2
Positions Authorized at the Board of Governors, by Division or Office, 1991–93

Division or office	1991 actual	1992 estimate	1993 budget	Change	
				1991 to 1992	1992 to 1993
Board Members	38	38	38	0	0
Secretary	58	59	59	1	0
Legal	72	84	84	12	0
Research and Statistics	256	269	270	13	1
International Finance	103	106	110	3	4
Banking Supervision and Regulation	183	239	239	56	0
Human Resources Management	48	48	48	0	0
Concern[1]	22	22	22	0	0
Support Services	259	259	260	0	1
Controller	31	31	31	0	0
Consumer and Community Affairs	43	43	53	0	10
Staff Director for Management	7	7	7	0	0
Reserve Bank Operations and Payment Systems	116	118	124	2	6
Information Resources Management	271	270	271	−1	1
Monetary Affairs	62	63	66	1	3
Special projects	2	1	1	−1	0
Total, Board operations	**1,571**	**1,657**	**1,683**	**86**	**26**
Office of Inspector General	19	22	32	3	10
FFIEC[2]	13	14	14	1	0

1. EEO Concern positions managed by the Division of Human Resources Management.
2. Federal Financial Institutions Examination Council.

tions added in 1992, and funding for the twenty-six positions added for 1993. The increases in insurance and retirement expenses are primarily a result of the increased number of employees. Actions approved by the Board during 1992 helped limit rate increases for health insurance, a major item in recent years, and had a side effect of limiting the added expense resulting from Financial Accounting Standard 106 (Employers' Accounting for Postretirement Benefits other than Pensions), which becomes effective in 1993.

Table 2.3
Operating Expenses of the Board of Governors, by Object of Expense, 1991–93

Object of expense	1991 actual	1992 estimate	1993 budget	Change, 1991 to 1992		Change, 1992 to 1993	
				Amount	Percent	Amount	Percent
Personnel							
Salaries	73,814,229	80,193,026	88,274,588	6,378,797	8.6	8,081,562	10.1
Retirement	5,061,515	6,251,485	6,846,515	1,189,970	23.5	595,030	9.5
Insurance	6,498,142	6,846,276	7,611,035	348,134	5.4	764,759	11.2
Total	85,373,886	93,290,787	102,732,138	7,916,901	9.3	9,441,351	10.1
Goods and services							
Travel	3,461,161	4,198,060	4,804,949	736,899	21.3	606,889	14.5
Postage and expressage	1,205,177	1,174,800	1,235,934	−30,377	−2.5	61,134	5.2
Telephone and telegraph	1,605,383	1,654,150	1,737,275	48,767	3.0	83,125	5.0
Printing and binding	1,042,125	1,081,700	1,178,700	39,575	3.8	97,000	9.0
Publications	−928,376	−471,280	−516,400	457,096	49.2	−45,120	−9.6
Stationery and supplies	720,201	812,604	810,715	92,403	12.8	−1,889	−.2
Software	2,428,141	2,882,332	3,570,790	454,191	18.7	688,458	23.9
Furniture and equipment	693,850	1,178,807	1,297,156	484,957	69.9	118,349	10.0
Rentals	−930,489	−815,643	315,871	114,846	12.3	1,131,514	138.7
Books and subscriptions	608,422	720,103	773,702	111,681	18.4	53,599	7.4
Utilities	1,685,659	1,750,000	1,792,000	64,341	3.8	42,000	2.4
Building repairs and alterations	1,001,932	1,928,800	1,620,180	926,868	92.5	−308,620	−16.0
Equipment repairs and maintenance	1,896,945	2,008,303	2,270,222	111,358	5.9	261,919	13.0
Contingency Processing Center expenses	190,571	256,100	256,100	65,529	34.4	0	0
Contractual professional services	2,669,270	4,454,737	5,080,298	1,785,467	66.9	625,561	14.0
Tuition/registration and membership fees	671,010	991,376	1,157,492	320,366	47.7	166,116	16.8
Subsidies and contributions	638,975	706,254	743,625	67,279	10.5	37,371	5.3
Depreciation	5,607,265	6,117,228	6,649,637	509,963	9.1	532,409	8.7
All other	167,698	−154,706	−499,626	−322,404	−192.3	−344,920	−223.0
Total	24,434,920	30,473,725	34,278,620	6,038,805	24.7	3,804,895	12.5
Total, Board operations	**109,808,806**	**123,764,512**	**137,010,758**	**13,955,706**	**12.7**	**13,246,246**	**10.7**
Extraordinary items	373,333	3,161,000	310,000	2,787,667	...	−2,851,000	...
Office of Inspector General	1,568,102	2,007,673	3,171,304	439,571	28.0	1,163,631	58.0

The amount budgeted for goods and services is $3.8 million, or 12.5 percent, greater than estimated 1992 expenses. Rental expenses will increase as a result of leasing additional office space to support the growth in personnel, and software expenses will increase as a result of a continuing migration from mainframe to distributed automation support. Travel expenses are continuing to increase, owing to the higher staffing level, a continued high level of travel to resolve supervisory issues, and fare increases. In contrast, costs for building repairs and alterations will decline with the completion of 1992 projects.

Operations Budget by Operational Area

The Board operations budget supports four broadly defined operational areas: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and System policy direction and oversight. The costs of support and overhead are allocated to the operational areas in proportion to direct expenses. Data on expenses and positions for each operational area for 1991–93 are shown in tables 2.4 and 2.5.

Monetary and Economic Policy

The budget for monetary and economic policy is $62,373,000, an increase of 7.1 percent over estimated 1992 expenses. Funds are provided for the monetary and economic policy divisions to meet a growing workload resulting from turbulence in domestic and foreign economies and financial markets, the evolution of the economic structure, and added support required by activities in the supervision and regulation operational area. Enhancement of automation capabilities in these divisions will continue, and eight positions have been added to provide increased emphasis on monetary aggregates and bank credit, longer-term research, and the economic and political transformation of the former Soviet Union and Eastern Europe.

Supervision and Regulation

The budget for supervision and regulation is $45,920,000, an increase of

Table 2.4

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 1991–93[1]

Thousands of dollars, except as noted

Type of expense	1991 actual	1992 estimate	1993 budget	Change, 1991 to 1992		Change, 1992 to 1993	
				Amount	Percent	Amount	Percent
Monetary and economic policy	55,006	58,261	62,373	3,255	5.9	4,112	7.1
Supervision and regulation	32,151	39,342	45,920	7,191	22.4	6,578	16.7
Services to financial institutions and the public	2,865	2,384	2,766	–481	–16.8	382	16.0
System policy direction and oversight	19,786	23,777	25,952	3,991	20.2	2,175	9.1
Total, Board operations	**109,808**	**123,764**	**137,011**	**13,956**	**12.7**	**13,247**	**10.7**
Extraordinary items	373	3,161	310	2,788	. . .	–2,851	. . .
Office of Inspector General	1,568	2,007	3,171	439	28.0	1,164	58.0

1. Operating expenses include allocations for support and overhead.

16.7 percent over estimated 1992 expenses. Funds are provided for increased international activity, particularly for supervising the activities of foreign banks and branches in the United States and for increased enforcement activity. Several new programs were added in 1992 to support activities that now require more attention. These include International Regulation and Examination Policy, Special Investigations and Examinations, Regulatory Reporting and Accounting Issues, and Supervisory Reviews and Evaluations.

The workload resulting from the HMDA and the CRA continues to increase, as the number and complexity of applications requiring analysis has grown dramatically. Although efficiency, timeliness, and the quality of analysis have been improved by new methods of analyzing and using the data and automation tools, additional staffing was recently approved for this function.

All divisions that support this operational area continue to invest in automation and software. The Division of Banking Supervision and Regulation is participating in the development of the National Information Center, which will constitute the database for structure and financial information for the entire System. The Division of Consumer and Community Affairs is working closely with the Federal Financial Institutions Examination Council (FFIEC) to process and analyze HMDA data and, in 1993, will begin using mapping software to improve analysis. The Board's share of the 1993 expense to produce the HMDA data will be approximately $0.3 million.

Services to Financial Institutions and the Public

The budget for oversight of Reserve Bank services to financial institutions and the public is $2,766,000, an increase of 16.0 percent over estimated 1992 expenses. This operational area encompasses programs responsible for payments activities and related regulatory and policy initiatives. It also includes oversight of the development of new, consolidated applications intended to improve the efficiency of Reserve Bank automated clearinghouse, book-entry securities transfer, and funds transfer services. Two additional positions are

Table 2.5
Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1991–93[1]

Type of expense	1991 actual	1992 estimate	1993 budget	Change, 1991 to 1992		Change, 1992 to 1993	
				Amount	Percent	Amount	Percent
Monetary and economic policy	401	417	425	16	4.0	8	1.9
Supervision and regulation	292	365	375	73	25.0	10	2.7
Services to financial institutions and the public	22	22	24	0	0	2	9.1
System policy direction and oversight	154	156	160	2	1.3	4	2.6
Support and overhead	702	697	699	–5	–.7	2	.3
Total, Board operations	**1,571**	**1,657**	**1,683**	**86**	**5.5**	**26**	**1.6**
Office of Inspector General	19	22	32	3	15.8	10	45.5

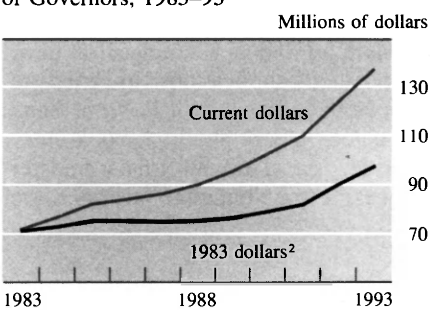
1. Support and overhead positions not allocated to operational areas.

required to enhance understanding of industry practices for clearing and settlement of book-entry securities and for electronic payments systems.

System Policy Direction and Oversight

The budget for System policy direction and oversight is $25,952,000, a 9.1 percent increase over estimated 1992 expenses. This operational area encompasses supervision of Board and Reserve Bank programs; the 1993 budget reflects the addition of the Payment System Risk and the Payment System Studies programs to the area in late 1991.

Chart 2.1
Operating Expenses of the Board of Governors, 1983–93[1]



Year	Expenses in millions of	
	Current dollars	1983 dollars
1983	71.6	71.6
1984	76.5	73.2
1985	82.0	75.6
1986	84.0	75.5
1987	86.2[3]	75.1
1988	89.9	75.4
1989	95.3[3]	76.5
1990	102.4	79.0
1991	109.8	81.8
1992	123.8	89.9
1993	137.0	97.1

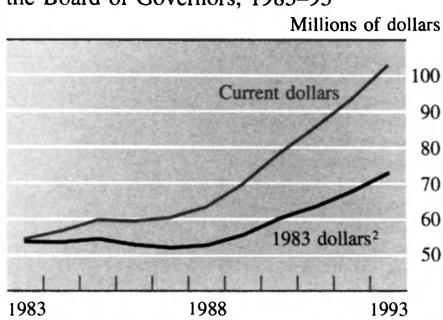
1. Excludes the Office of Inspector General and extraordinary items. For 1992, estimate; for 1993, budget.
2. Calculated with the GDP price deflator.
3. Numbers slightly revised from earlier edition.

The major factors contributing to the 1993 increase are the addition of two positions for System policy direction to help improve understanding of other domestic and foreign large-value payments systems; two positions for System policy oversight to assist in reviews of the Reserve Banks and the Federal Reserve Automation Services sites and to set up and manage databases for analyzing payments system issues; the Board's share of System costs for the Daylight Overdraft Reporting and Pricing System (DORPS) project; and projects to improve automation procedures at the Board and Reserve Banks. A savings bond consolidation effort is also under way that will reduce costs to the Treasury. Current private sector initiatives to develop clearinghouses and netting systems will continue to expand, resulting in a need to assess these systems to determine risk implications and the degree to which they have taken account of and compensated for systemic risk.

Capital Budget

The 1993 capital budget of $7.4 million provides $6.5 million for critical initia-

Chart 2.2
Expenses for Personnel Services at the Board of Governors, 1983–93[1]



1. Excludes the Office of Inspector General. For 1992, estimate; for 1993, budget.
2. Calculated with the GDP price deflator.

tives, including $1.4 million for equipping and configuring additional office space. The increase over estimated 1992 expenditures, $2.6 million, is due to capital costs associated with new office space and investment in a fan room and air-handling equipment for the Eccles Building.

The budget includes approximately $1.3 million for new and upgraded workstations, printers, and peripheral equipment for the research divisions. A major portion of this amount is earmarked for expanding the computer power of the research network and improving the quality of the user interface. Funds are also included to support the transfer of all applications now running on the Board's VM mainframe computer to a distributed processing network.

Also included in the capital budget are funds for the second phase of a premise-wide network project, additional baseline workstation technology for all IRM staff, replacement of printers in the data center to provide greater reliability and faster throughput of printouts, and the acquisition of new technology for pilot projects.

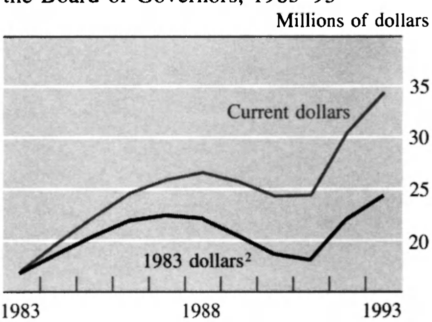
The Division of Support Services's budget includes $3.2 million to support the new leased office space, to refurbish and reallocate space in the Martin Building, and for other equipment for the cafeteria and mechanical plant.

The remainder of the budget is allocated for smaller projects, including automation equipment for the Division of Banking Supervision and Regulation and systems modernization for the Office of the Controller as part of its Administrative Systems Automation project.

Trends in Expenses and Employment

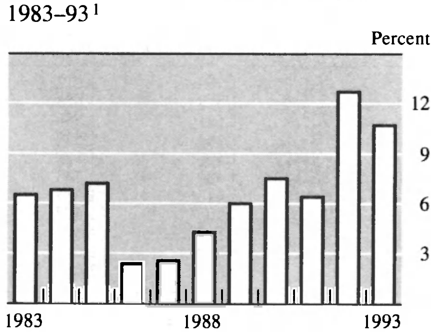
The increase in the 1993 operations budget, 10.7 percent, is greater than the average annual rate of increase of 8.8 percent over the past five years and 6.7 percent over the past ten years. The larger increase reflects the sharp increases in staff to meet the growing responsibilities of the Board resulting from legislation, the condition of the financial industry, and economic conditions here and abroad. Charts 2.1–2.5 show trends for the period from 1983.

Chart 2.3
Expenses for Goods and Services at the Board of Governors, 1983–93[1]



1. Excludes the Office of Inspector General and extraordinary items. For 1992, estimate; for 1993, budget.
2. Calculated with the GDP price deflator.

Chart 2.4
Annual Rate of Change in Operating Expenses of the Board of Governors, 1983–93[1]

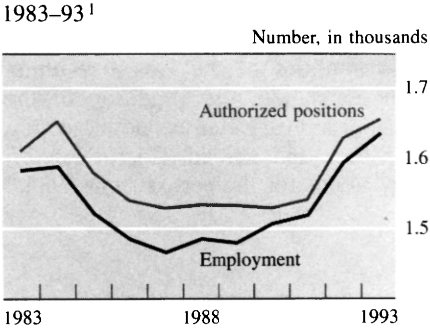


1. Excludes the Office of Inspector General and extraordinary items. For 1992, estimate; for 1993, budget.

Adjusted by the GDP deflator, the average annual rate of increase in the operations budget has been 5.2 percent over the past five years and 3.1 percent over the past ten years. The higher rate of increase during the past five years reflects an increasing staffing level in the supervision and regulation operational area, more competitive salaries, and rent for additional office space.

The operations budget authorizes 1,683 positions, an increase of 26 over 1992, and 43 over 1983, when 1,640 positions were authorized. Significant decreases in central data processing operations and clerical tasks have resulted from technology changes and distributed processing. The decline of 56 positions in IRM and 19 positions in Support Services since 1983 has been more than offset, however, by the increase of 103 positions in the Division of Banking Supervision and Regulation and 19 positions in the Legal Division over the same period. ■

Chart 2.5
Employment and Authorized Positions at the Board of Governors, 1983–93[1]



Year	Employment	Authorized positions
1983	1,583	1,612
1984	1,588	1,653
1985	1,521	1,580
1986	1,484	1,540
1987[2]	1,465	1,529
1988	1,484	1,534
1989[2]	1,478	1,533
1990	1,505[2]	1,529
1991	1,517[2]	1,541
1992	1,592	1,629
1993	1,632	1,655

1. Year-end data. Excludes twenty-eight summer intern and youth positions and Office of Inspector General. For 1992, estimate; for 1993, budget.

2. Numbers slightly revised from earlier edition.

Chapter 3

Federal Reserve Banks

The 1993 operating budgets for the Federal Reserve Banks approved by the Board of Governors total $1,722.5 million, an increase of $126.2 million, or 7.9 percent, over estimated 1992 expenses (table 3.1). Not included in the budgets are the costs of three special projects—Check Image Processing ($3.1 million), Development of Currency Authentication Systems ($4.2 million), and Automation Consolidation ($73.0 million).[1] Including the costs of these special projects, the Reserve Banks' 1993 budgets total $1,802.8 million, an increase of $173.9 million, or 10.7 percent, over estimated 1992 expenses.

Employment excluding the staff associated with the special projects is budgeted at 24,286 average number of personnel (ANP), an increase of 272 ANP, or 1.1 percent, over estimated 1992 employment.[2] Including the special projects staff, total budgeted employment is 24,586, an increase of 466 ANP over estimated 1992 employment.[3]

Expenses for personnel (salaries and benefits) account for $1,150.0 million, or 66.8 percent of Reserve Bank operating expenses budgeted for 1993, an increase of $101.2 million, or 9.6 percent, over estimated 1992 personnel expenses (table 3.2). Nonpersonnel expenses (primarily for building and automation projects) are budgeted at $572.5 million, an increase of $25.0 million, or 4.6 percent.

The following two sections discuss major initiatives and the budget objective for the Reserve Banks in 1993. Subsequent sections provide details for the four operational areas as well as objects of expense, capital outlays, and long-term trends. Appendix A gives more information on capital outlays, special projects, and other special categories of expense. Appendix D gives additional data by District and by operational area.

Major Initiatives

The 1993 Reserve Bank budgets provide $66.9 million for Bank initiatives (table 3.3), including the following:

- Increased expenses for postemployment medical and life insurance benefits (FASB 106)

1. The budget for the Automation Consolidation special project includes $55.2 million for excess capacity at FRAS (Federal Reserve Automation Services, the name given the consolidated computer operations located at New York, Richmond, and Dallas). The remainder of the Automation Consolidation budget ($17.9 million) is being contributed by the Reserve Banks. For more information on FRAS, see chapter 4.

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

3. For presentation purposes, FRAS staff is included with the Automation Consolidation special project. Special project staff comprises 2 ANP for the Check Image Processing special project and 298 ANP for the Automation Consolidation special project.

- Expanded efforts in supervision and regulation
- Enhanced automation capabilities
- Increased expenses for facility projects at head office and Branch buildings
- Enhanced check, cash, and fiscal operations.

The projected increase for postemployment benefits, $35.7 million, is due to implementation of Financial Accounting Standard 106 (FASB 106), which requires that organizations accrue expenses for funding the postretirement medical and life insurance benefits of their current employees and retirees.

Expanded efforts in supervision and regulation are projected to increase expenses $21.3 million and to add 300 ANP. Approximately half the amount, $10.8 million and 135 ANP, will go for expansion of New York's supervision and regulation activities, primarily a result of mandates contained in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

Automation initiatives are budgeted at $6.1 million. The largest portion of this amount is related to expenses for the new Fednet communications system.[4] In addition, Boston, Cleveland, and San Francisco will be adding office automation capabilities. Partially offsetting expenditures for automation initiatives are savings associated with the impact of automation consolidation at the Reserve Banks.

4. Fednet is a registered trademark of the Federal Reserve System.

Table 3.1
Expenses and Employment at the Federal Reserve Banks, 1992 and 1993[1]

Category	1992 estimate	1993 budget	Change	
			Amount	Percentage
Expenses (millions of dollars)				
Operations[2]	1,596.3	1,722.5	126.2	7.9
Special projects	32.6	80.3	47.7	...
Total	1,628.9	1,802.8	173.9	10.7
Employment (average number of personnel)[3]				
Operations[2]	24,014	24,286	272	1.1
Special projects	106	300	194	...
Total	24,014	24,586	466	1.9

1. Excludes capital outlays.
2. Includes support and overhead (see appendix D, table D.3, note 1, for definitions).
3. See text note 2 for definition of average number of personnel.

Table 3.2
Operating Expenses of the Federal Reserve Banks, by Object, 1991–93[1]

Millions of dollars, except as noted

Object	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Personnel	967.7	1,048.8	1,150.0	8.4	9.6
Nonpersonnel	526.2	547.5	572.5	4.0	4.6
Total	**1,493.9**	**1,596.3**	**1,722.5**	**6.9**	**7.9**

1. Includes the costs of support and overhead (see appendix D, table D.3, note 1, for definitions).

Facility projects account for $5.8 million in the 1993 budget. The year-over-year impact of the East Rutherford Operations Center (EROC), combined with relocation of operations of the Cranford check processing center to EROC, will increase New York's expenses by $2.2 million. New York has been able to keep increases associated with EROC to a minimum by implementing operating efficiencies, which have allowed for a reduction of 45 ANP in 1993. As an interim solution to its building space limitations, Atlanta will lease additional space in 1993, at a cost of $1.7 million. Dallas has budgeted an additional $1.1 million for operating costs associated with its new building, and Minneapolis has included $0.4 million, primarily for taxes on the land for its new building.

Initiatives in the currency area are adding $4.0 million to the 1993 budget. Five Districts have budgeted a total of $2.7 million for new cash-processing machines; New York expects to receive ten machines during 1993, with associated maintenance and depreciation costs of approximately $2.0 million. In addition, Philadelphia, Cleveland, and San Francisco are projecting increased costs related to several cash automation projects.

Table 3.3
Expenditures for Major Initiatives of the Federal Reserve Banks, 1993

Initiative	Millions of dollars	Percentage of 1993 operating budget
FASB 106[1]	35.7	2.2
Supervision and regulation	21.3	1.3
Automation projects	6.1	.4
Facility improvements	5.8	.4
Currency initiatives	4.0	.3
Fiscal initiatives	3.1	.2
Enhanced check operations	1.7	.1
Productivity and operational improvements	−8.9	−.6
Early retirement programs	−1.9	−.1
Total	**66.9**	**4.2**
MEMO		
Increase in total operating expenses, 1992 estimate to 1993 budget	126.2	7.9

1. Financial Accounting Standard 106.

Fiscal initiatives have added $3.1 million to the Reserve Banks' total 1993 budget. A large share of this amount is attributable to a Treasury Department decision in 1992 to consolidate savings bond operations in the Federal Reserve System. Five Districts—New York, Cleveland, Richmond, Minneapolis, and Kansas City—were designated processing sites. The consolidation of operations, including original issue, servicing, and direct redemption, is targeted for completion by 1996. The five host sites have budgeted approximately $2.6 million to begin preparation for consolidated processing.

Partially offsetting these increases are initiatives that will result in savings of $10.8 million. Approximately half the savings will come from elimination of cash transportation in Philadelphia ($1.5 million) and San Francisco ($4.2 million). Several Banks anticipate additional total savings of $3.1 million from increased productivity and Districtwide consolidation of operations, primarily in the check and automated clearinghouse (ACH) areas.

1993 Budget Objective

In 1992, the Board of Governors approved a 1993 Reserve Bank budget objective that provided for a 4.4 percent increase in ongoing general operating expenses over total 1992 operating expenses. The Board also anticipated that expenses for budget objective factors, including several Systemwide efforts and District-specific building and equipment projects, would add 4.0 per-

Table 3.4
1993 Budget Objective and Budget of the Federal Reserve Banks[1]

Percentage change from 1992 expenses

Item	Budget objective	Budget
General operating expenses	4.4	3.5
Budget objective factors	4.0	4.4
MEMO		
Special projects	2.4	2.8
Total	**10.8**	**10.7**

1. See data on expenses in table 3.1.

centage points to the 1993 budget. Table 3.4 compares the 1993 budget objective with the 1993 budget, both expressed in terms of the percentage increase over 1992 expenses.

The 1993 increase for general operating expenses is 0.9 percentage point less than the budget objective. The increase is under the 4.4 percent general operating expense target primarily because of savings in several Districts that were not included in the objective. Elimination of the cash transportation service by Philadelphia and San Francisco ($5.7 million), operational improvements, primarily in ACH, by several Districts ($1.3 million), and smaller-than-anticipated increases in shipping rates ($2.8 million) account for a significant portion of the underrun. Early retirement programs in Cleveland and Minneapolis account for an additional $1.9 million in savings.

The increase of $69.8 million for budget objective factors is $5.0 million, or 0.4 percentage point, above the target established by the Board. Budgeted expenses for most of the factors vary only slightly from the budget objective, but the increase for supervision and regulation is $8.2 million higher than anticipated. This budget factor took into consideration only the salaries and benefits associated with expanded responsibilities mandated by the FDICIA, whereas the budget includes not only salaries and benefits, but also related expenses such as travel, training, and equipment. In addition, salary expenses are higher than had been anticipated in the budget objective, as Districts have been able to hire more experienced supervision and regulation staff.

Excluded from the 1993 budget objective was the projected increase of $50.3 million for transition costs for the Automation Consolidation special project. Also excluded were projected lower expenditures for the Check Image Processing and Currency Authentication Systems special projects ($1.2 million and $1.4 million decrease respectively). The net effect of these special projects is an increase of $47.7 million over estimated 1992 expenses.

Table 3.5
Operating Expenses of the Federal Reserve Banks, by Operational Area, 1991–93

Thousands of dollars, except as noted

Operational area	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Monetary and economic policy	106,699	110,531	119,619	3.6	8.2
Services to the U.S. Treasury and other government agencies	169,483	181,359	196,747	7.0	8.5
Services to financial institutions and the public	980,379	1,027,642	1,084,884	4.8	5.6
Supervision and regulation	237,369	276,745	321,249	16.6	16.1
Total	**1,493,930**	**1,596,277**	**1,722,499**	**6.9**	**7.9**

Operational Areas

Tables 3.5 and 3.6 summarize Reserve Bank expenses and employment in each of the four operational areas. Tables 3.7 through 3.10 give details for each area.

Monetary and Economic Policy

The 1993 budget for this operational area is $9.1 million, or 8.2 percent, larger than estimated 1992 expenses. The increase reflects a staff increase of 9 ANP (1.2 percent), merit pay increases, greater expenses associated with FASB 106, and increased costs for equipment and support associated with automation initiatives. The staff increase, occurring primarily at the Richmond, St. Louis, Kansas City, and Minneapolis head offices, reflects the full-year effect of staff hired in 1992 to assist with automation initiatives, report monitoring, and data collection; the full-year effect of economists hired during 1992 to fill vacancies; and the planned hiring of two additional economists in 1993.

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

The 1993 budget for services to government agencies is $15.4 million, or 8.5 percent, higher than estimated 1992 expenses. Staffing levels are expected to decline by approximately 15 ANP. The

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1991–93

Average number of personnel, except as noted[1]

Activity	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Operational areas					
Monetary and economic policy	784	778	787	–.8	1.2
Services to the U.S. Treasury and other government agencies	1,870	1,838	1,822	–1.7	–.9
Services to financial institutions and the public	9,044	8,966	8,723	–.9	–2.7
Supervision and regulation	2,343	2,629	2,929	12.2	11.4
Support and overhead[2]					
Support	4,629	4,780	4,781	3.3	.0
Overhead	4,924	5,025	5,244	2.1	4.4
Total	**23,594**	**24,014**	**24,286**	**1.8**	**1.1**

1. See text note 2 for definition of average number of personnel.
2. See appendix D, table D.3, note 1, for definitions.

Table 3.7

Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1991–93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Economic policy determination	86,775	89,572	97,769	3.2	9.2
Open market trading	19,923	20,960	21,851	5.2	4.3
Total	**106,699**	**110,531**	**119,619**	**3.6**	**8.2**

budget increase is due mainly to costs associated with the project to consolidate savings bond operations and to higher salaries and benefits costs. In addition, the full-year effect of Regional Delivery System implementation will add 25 ANP. However, this increase will be more than offset by reductions in staff for other savings bonds services (15 ANP) as well as in the government accounts (10 ANP), centrally provided Treasury and agency services (8 ANP), and other Treasury issues (7 ANP) services.

Services to Financial Institutions and the Public

Expenses for this operational area, which encompasses both priced and nonpriced services, are budgeted to increase \$57.2 million, or 5.6 percent, in 1993.

Table 3.8

Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1991–93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Savings bonds	36,240	33,912	36,648	–6.4	8.1
Consolidated operations–savings bonds	23,323	31,713	35,325	36.0	11.4
Other Treasury issues	15,457	16,970	17,585	9.8	3.6
Consolidated operations–other Treasury issues	1,224	1,241	1,323	1.4	6.6
Centrally provided Treasury and agency services	22,425	23,137	24,555	3.2	6.1
Government accounts	26,518	28,217	30,869	6.4	9.4
Food coupons	18,875	19,533	21,150	3.5	8.3
Other	25,422	26,637	29,293	4.8	10.0
Total	**169,483**	**181,359**	**196,747**	**7.0**	**8.5**

Table 3.9

Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1991–93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Currency	141,890	158,413	172,226	11.6	8.7
Coin	24,474	24,459	26,105	–.1	6.7
Special cash	14,379	12,433	6,497	−13.5	–47.7
Commercial check	482,742	503,786	531,015	4.4	5.4
Other check	28,084	30,250	33,687	7.7	11.4
Funds transfer	69,639	66,866	72,330	–4.0	8.2
Automated clearinghouse	80,712	88,591	93,446	9.8	5.5
Book-entry securities transfers	34,063	34,455	35,749	1.1	3.8
Definitive securities safekeeping and noncash collection	14,455	13,520	11,931	–6.5	−11.7
Loans to members and others	16,099	16,580	18,248	3.0	10.1
Public programs	47,915	51,934	56,757	8.4	9.3
Other	25,926	26,358	26,895	1.7	2.0
Total	**980,379**	**1,027,642**	**1,084,884**	**4.8**	**5.6**

Staffing levels will decrease by 243 ANP, mainly in commercial check (118 ANP), automated clearinghouse (55 ANP), and noncash collection (38 ANP) operations.

The commercial check service accounts for nearly half the expenses budgeted for this operational area and employs 5,346 ANP. The anticipated increase in expenses—$27.2 million, or 5.4 percent over the estimated 1992 level—is due mostly to higher salary and benefits expenses resulting from merit pay increases, FASB 106, and higher costs for equipment and software intended to improve operations. Staffing levels for this service are expected to decline by 118 ANP, or 2.2 percent, owing to continued automation and downsizing of the check adjustments function, reductions in adjustment backlogs, and continued improvements in processing return items, including increased intermingling of forward collection and return items. The volume of commercial checks is expected to increase 0.5 percent, and unit cost is budgeted to increase 4.4 percent.

Expenses for the currency service are expected to increase $13.8 million, or 8.7 percent, mainly because of the introduction of the ISS 3000 cash-processing machines, implementation of counterfeit detectors and materials-handling systems, and efforts to manage larger volumes. Higher salary and benefits expenses due to FASB 106 and merit pay increases will also contribute to the increase over estimated 1992 expenses. Staffing levels will increase by 1 ANP.

Expenses for the funds transfer service are expected to increase $5.5 million, or 8.2 percent, primarily because of higher data communications costs, reflecting an increase in Fednet costs. However, staffing will decrease by 10 ANP, or 6.5 percent, mainly because of continued conversion of off-line customers to on-line status. Volume is expected to increase 4.7 percent, and unit cost is projected to increase 3.3 percent.

The budget for the automated clearinghouse service is increasing $4.9 million, or 5.5 percent, mainly because of higher data communications costs, reflecting higher communications costs, higher costs for the ACH system project and the Automation Consolidation special project, and higher overhead costs. Staffing is expected to decrease by 55 ANP, or 16.3 percent, mainly because of District efforts to consolidate processing at head offices and efficiencies from migration to an all-electronic environment. Total ACH volume is projected to increase 12.0 percent in 1993, and the

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1991–93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Supervision of District financial institutions	150,353	182,763	219,945	21.6	20.3
Administration of laws and regulations related to banking	75,554	80,073	86,379	6.0	7.9
Studies of banking and financial market structures	11,462	13,909	14,925	21.3	7.3
Total	**237,369**	**276,745**	**321,249**	**16.6**	**16.1**

increase is expected to contribute to a 5.8 percent decrease in unit cost.

Supervision and Regulation

The 1993 budget increase for this operational area of $44.5 million, or 16.1 percent, over estimated 1992 expenses reflects a staff increase of 300 ANP, increases in merit pay and postemployment benefits (FASB 106), and additional expenses for travel, training, equipment (primarily laptop computers), and overhead. The staff increase is the result of expanded supervisory responsibilities mandated by the FDICIA, including requirements related to supervision of foreign banks and the monitoring of compliance with consumer-protection legislation such as truth in savings. The act increases the frequency of examinations for many institutions and reduces the flexibility to conduct limited-scope examinations.

Objects of Expense

Personnel expenses—officer and employee salaries, other compensation to personnel, and retirement and other benefits—account for 66.8 percent of Reserve Bank 1993 operating expenses. The 1993 budget for personnel is 9.6 percent greater than estimated 1992 expenses (table 3.11).

Salaries and other personnel expenses, which account for approximately 52 percent of budgeted 1993 operating expenses, are expected to be $51.0 million, or 6.1 percent, greater than estimated 1992 expenses. Salaries are expected to increase $50.8 million, or 6.2 percent. Merit pay increases totaling $35.9 million account for a large portion of the increase. Also contributing to the rise in expenses are promotions, reclassifications, structure adjustments, and staffing level increases. The increases are partially offset by

Table 3.11

Operating Expenses of the Federal Reserve Banks, by Object, 1991–93

Thousands of dollars, except as noted

Object	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
PERSONNEL					
Officers' salaries	80,577	84,037	88,778	4.3	5.6
Employees' salaries	689,843	741,354	787,461	7.5	6.2
Other personnel[1]	12,611	15,585	15,775	23.6	1.2
Retirement and other benefits	184,660	207,775	257,957	12.5	24.2
Total personnel	967,691	1,048,751	1,149,971	8.4	9.6
NONPERSONNEL					
Forms and supplies	54,577	54,267	54,987	–.6	1.3
Equipment	166,125	176,001	187,942	5.9	6.8
Software	32,734	34,024	32,288	3.9	–5.1
Shipping	88,175	86,160	81,037	–2.3	–5.9
Travel	32,817	36,193	39,106	10.3	8.0
Buildings	132,960	139,007	153,375	4.5	10.3
Recoveries	–36,946	–40,009	–44,877	8.3	12.2
All other[2]	55,799	61,885	68,672	10.9	11.0
Total nonpersonnel	526,239	547,528	572,530	4.0	4.6
Total	**1,493,930**	**1,596,278**	**1,722,499**	**6.9**	**7.9**

1. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.
2. Communications, fees, contra-expenses, shared costs distributed and received, excess capacity, and other.

short-term position vacancies (lag) and lower overtime expenses.

Retirement and other benefits expenses, which account for 15.0 percent of budgeted 1993 operating expenses, are expected to be $50.2 million, or 24.2 percent, greater than estimated 1992 expenses, primarily because of FASB 106; without the effect of FASB 106, the increase would be $14.5 million, or 7.0 percent. Also contributing to the increase are the continued escalation of hospital and medical costs, a rise in Social Security taxes, and increased workers compensation insurance costs.

Nonpersonnel expenses, which account for 33.2 percent of budgeted 1993 operating expenses, are projected to increase 4.6 percent over estimated 1992 expenses.

Equipment expenses are expected to increase 6.8 percent, accounting for 10.9 percent of budgeted 1993 operating expenses. Rentals are increasing $4.2 million, or 19.4 percent, owing to expansion of the all-electronic ACH network, rental of high-speed circuits required for the Fednet system, and the increased cost of leased lines.

Shipping expenses are projected to be 5.9 percent less than estimated 1992 expenses, accounting for 4.7 percent of budgeted 1993 operating expenses. The decrease is due primarily to the consolidation of noncash operations in three Districts and the elimination of cash transportation services in two Districts.

Building expenses, which account for 8.9 percent of budgeted 1993 operating expenses, are expected to increase 10.3 percent in 1993, owing to higher real estate taxes and the full-year effect of recently completed capital projects in a number of Districts. The building projects in New York (EROC) and Dallas contribute heavily to the increase. Also adding to the increase is a rise in rental expenses in Atlanta.

Recoveries are budgeted to increase $4.9 million, or 12.2 percent, in 1993. Anticipated recoveries associated with rent and fees charged to FRAS by host Banks account for $4.2 million.

"Other" nonpersonnel expenses are budgeted to increase $6.8 million over estimated 1992 expenses, accounting for 4.0 percent of 1993 budgeted operating expenses.[5] The increase is due essentially to two factors related to FRAS operations: Banks will be charged for the use of FRAS and will share in the costs incurred by the host sites. The $26 million increase related to FRAS operations is partly offset by a $14.5 million reduction for excess capacity (the amount Banks charge to the special project).

Foreign travel expenses, at $2.8 million (out of a total travel budget of $39.1 million), account for only 0.2 percent of budgeted 1993 operating expenses, approximately the same level as in 1992. Examiner foreign travel, budgeted at $1.7 million, is declining 0.5 percent. Foreign travel expenses for Reserve Bank presidents and first vice presidents total $172,000, a decrease of 19.9 percent from estimated 1992 expenses; of this amount, $109,600 is for New York, primarily for that District's participation in the work of the Bank for International Settlements.

Capital Outlays

Capital outlays at the Reserve Banks are budgeted at $265.7 million, an increase of $31.4 million, or 13.4 percent, over

5. The budget for "other" nonpersonnel expenses reflects automation consolidation accounting procedures developed by a System group. The procedures separate expenditures for automation consolidation from expenditures for ongoing operations and treat FRAS as a separate entity.

estimated 1992 expenses. FRAS capital outlays are projected to be $72.6 million, a decrease of $34.1 million, or 32 percent, from estimated 1992 outlays. Capital outlays including FRAS are budgeted at $338.3 million, a decrease of $2.7 million, or 0.8 percent (table 3.12).

Significant increases in Reserve Bank outlays result from development of the Fednet communications system and the acquisition and installation of new ISS 3000 cash processors. Offsetting these increases are decreases resulting from completion of two major building projects, Dallas's head office building and New York's East Rutherford Operations Center.

Outlays for data processing and data communications equipment in 1993 are budgeted at $103.9 million, approximately 39 percent of total capital outlays. Approximately one-third of these outlays ($33.7 million) are for equipment for Fednet. Two components of the Fednet project that were included in the 1992 budget have been deferred until 1993, and FRAS's requirements for Fednet are greater than anticipated. Excluding Fednet, the 1993 budget for data processing and data communications equipment is approximately 13 percent less than estimated 1992 expenses. Other major outlays in this category for 1993 include $16.0 million for check reader-sorters in several Districts; $12.7 million for central processing units, primarily for Unisys Check Processors in Atlanta ($4.1 million) and Chicago ($2.9 million) and computer upgrades in New York ($2.6 million); and $12.7 million for new personal computer workstations in all Districts.

FRAS-related data processing and data communications equipment outlays are budgeted at $70.6 million in 1993. This includes three new central processing units ($17.2 million), disks to meet additional storage requirements ($37 million), two new tape drives ($3.5 million), channel extenders ($3.2 million), and communication controllers ($4.3 million).

Purchases of furniture and other equipment are budgeted at $67.3 million, about 25 percent of total capital outlays. About one-third of this amount ($20.8 million) will go for ISS 3000 cash processors, to be installed at Boston, New York, Richmond, Chicago,

Table 3.12
Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1991–93

Thousands of dollars, except as noted

Class of outlay	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Data processing and data communications equipment[1]	64,808	172,536	174,584	. . .	1.2
Buildings	134,333	63,556	68,912	–52.7	8.4
Furniture, furnishings, and fixtures	13,103	27,332	23,852	108.6	–12.7
Other equipment	18,328	31,887	43,417	74.0	36.2
Land and other real estate	3,315	4,393	6,096	32.5	38.8
Building machinery and equipment	4,874	24,196	12,376	396.4	–48.9
Leasehold improvements	1,194	2,360	1,880	97.7	–20.3
Software[2]	. . .	14,810	7,231	. . .	–51.2
Total	**239,954**	**341,070**	**338,348**	**42.1**	**–.8**

1. Includes FRAS capital of $93,195,000 in 1992 and $70,649,000 in 1993.
2. Includes FRAS capital of $13,595,000 in 1992 and $2,000,000 in 1993.

and San Francisco. Another $7.5 million will be spent on other cash-related equipment, including counterfeit detectors in New York ($2.7 million) and systems for handling cash materials in Philadelphia, Chicago, and San Francisco ($1.4 million). Atlanta has budgeted $6.0 million for staff relocation and department renovations, and several other Districts are planning furniture purchases, renovation, and remodeling.

Building outlays are budgeted at $68.9 million, about 26 percent of total capital outlays. Included are renovation projects associated with automation consolidation in Richmond ($13.1 million), New York ($3.3 million), and Dallas ($0.3 million) and preparation of cash areas for the new ISS 3000 cash processors ($10.9 million) in several Districts. Also included are two building projects, Cleveland's building expansion ($8.7 million) and consulting fees associated with the planned new facility for Minneapolis ($7.8 million).

Outlays for land and other real estate are budgeted at $6.1 million, primarily for land and related fees for the new Minneapolis building.

Expenditures on building machinery and equipment are budgeted at $12.4 million, primarily for UPS (uninterrupted power supply) and emergency generators at several offices ($5.7 million). The remaining outlays will allow several Districts to upgrade or replace existing machinery and equipment.

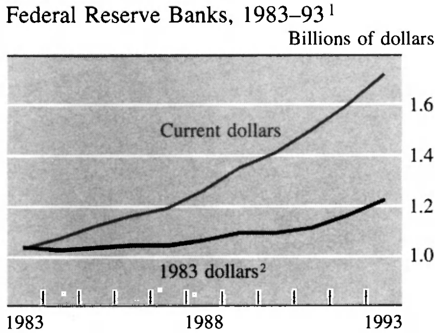
Software outlays planned for 1993 total $5.2 million. Philadelphia has budgeted $2.0 million on behalf of the seven Districts that constitute the Unisys Users' Group. In addition, New York has budgeted $1.5 million for its Market Data Distribution System to meet the Bank's need for timely and accurate market data. FRAS plans software purchases for one additional central processing unit as well as software to meet additional functionality requirements ($2.0 million).

Trends in Expenses and Employment

Over the ten years ending with the 1993 budget, Reserve Bank expenses have increased an average of 5.3 percent per year (chart 3.1). Over the past five years, the increase has averaged 6.4 percent per year. Increases in expenses have been higher since 1987 because of expanded bank supervision needs and implementation of the Expedited Funds Availability Act.

The number of employees at the Reserve Banks has increased from 22,883 ANP in 1983 to 24,286 ANP in 1993, an increase of 1,403 ANP (chart 3.2). Since 1983, staffing has increased in supervision and regulation (1,067 ANP), check services (461 ANP), and data processing (350 ANP) owing to expanded responsibilities in these areas. Partially offsetting these increases have been decreased staff in overhead services (345 ANP) resulting from Systemwide efforts to control overhead expenses.

Chart 3.1
Operating Expenses of the Federal Reserve Banks, 1983–93[1]



1. For 1992, estimate; for 1993, budget.
2. Calculated with the GDP price deflator.

Volume and Unit Costs

Volume for all measured operations is expected to increase 2.3 percent over 1992 volume, and unit cost is expected to rise 3.6 percent (table 3.13). Since 1988, volume has increased at an average annual rate of 2.4 percent and unit cost at a rate of 2.3 percent. The increase in unit cost expected for 1993 reflects a rise in unit cost in all areas except ACH. The commercial check service, the largest component in the overall index, expects an increase in volume of 0.5 percent and an increase in unit cost of 4.4 percent. The cash services, the second largest component, expect an increase in volume of 4.6 percent and an increase in unit cost of 3.6 percent.

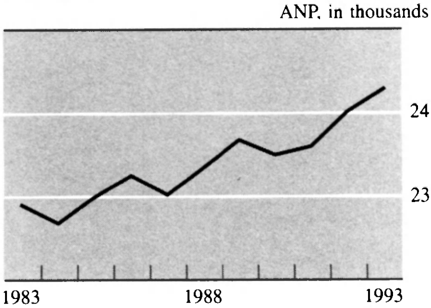
Table 3.13
Volume and Unit Costs of Federal Reserve Bank Services
Percentage change from 1992 to 1993

Service	Volume	Unit cost
Payments	2.4	3.1
Commercial check	.5	4.4
Automated clearinghouse	12.0	–5.8
Funds transfer	4.7	3.3
Other checks	–1.2	12.6
Cash	4.6	3.6
Fiscal	–.2	7.7
Securities and noncash	–2.0	1.4
All measured services	**2.3**	**3.6**

1992 Budget Performance

The 1992 Reserve Bank budgets, which were approved in December 1991, totaled $1,596.4 million, an expected increase of $94.8 million, or 6.3 percent, over estimated 1991 expenses. The Banks now estimate that 1992 expenses were $1,596.3 million, $0.1 million under the approved budget. At this estimated level of spending, the increase over the actual 1991 level is 7.0 percent.

Chart 3.2
Employment at the Federal Reserve Banks, 1983–93[1]



1. For 1992, estimate; for 1993, budget. See text note 2 for definition of ANP.

Because FDICIA, legislation that mandated increased responsibilities for the Reserve Banks, was passed late in the budget process, several Districts expected to incur costs not included in their original 1992 budgets. The Banks did increase staff and expenses during 1992 in support of FDICIA, with direct expenses in supervision and regulation $12.0 million greater than originally budgeted; in addition, 150 ANP were added for this effort. However, the Banks were able to offset this increase.

Six Banks expect to be over their approved 1992 budgets. Seven Banks expect to be within 1.0 percent of their budgets. Two Banks expect overruns of more than 1.0 percent—Philadelphia (2.0 percent) and Cleveland (1.1 percent). At Philadelphia, the overrun is due mainly to unusual developments in check operations: Volume is running 14 percent higher than anticipated, and the Bank has added resources in a continuing effort to reduce adjustment backlogs. Cleveland's expenses are expected to be over budget mostly because of unanticipated expenses for shared costs and miscellaneous fees. Three Banks expect underruns of more than 1.0 percent—Boston (1.8 percent), Chicago (2.0 percent), and Dallas (1.2 percent). At Boston, a greater-than-anticipated reduction in real estate taxes and an unanticipated drop in check volume are the main reasons for the underrun. Chicago will be under budget because of a real estate tax credit. Dallas expects to pay less tax on its new building because the appraised value is much lower than had been anticipated. Dallas also expects unbudgeted recoveries for rent and fees from FRAS. ▪

Part II

Special Analysis

Chapter 4
Automation Consolidation

In August 1990, the Federal Reserve Banks and the Board of Governors endorsed a strategic plan to consolidate the general-purpose data processing operations of the twelve Reserve Banks. The primary objectives of automation consolidation are improved reliability, increased control of payment system risk in a national banking environment, improved security of the total automation environment, enhanced responsiveness to changing business requirements, and greater efficiency.

Currently, general-purpose data processing is supported at each Reserve Bank head office, and contingency operations are supported at four additional sites. Ultimately, all general-purpose data processing and contingency operations will be consolidated at three sites. The three locations selected as consolidation centers are the Reserve Bank head offices in Richmond, Virginia, and Dallas, Texas, and the Federal Reserve Bank of New York's East Rutherford Operations Center in New Jersey. The transition to the three consolidation centers is expected to take place over two years.

The computing architecture is currently decentralized: The twelve Reserve Banks process critical applications using virtually identical copies of application software and operate in virtually identical computing environments. To deliver national payment services, the Banks must coordinate service delivery and interaction between individual payment applications at each Reserve Bank. This decentralized approach to delivering national payment services has intrinsic limitations that complicate the Federal Reserve System's tasks of optimizing service reliability, monitoring the financial positions of depository institutions operating nationwide, minimizing the security vulnerability in the Reserve Banks' automation environment, responding quickly to new business requirements, and improving efficiency.

The implementation of state-of-the-art technology to achieve continuous availability in numerous locations could be cost prohibitive. With only three processing sites, the Federal Reserve can more effectively capitalize on advanced computer and communications technology to achieve continuous availability and implement robust disaster-recovery arrangements designed to make the Federal Reserve's payment services virtually uninterruptible. Consolidation also simplifies monitoring the financial positions of depository institutions operating nationwide through the standardization of payment applications, thus providing Reserve Banks with vital and timely information required for controlling payment system risk. In addition, operating fewer processing facilities reduces the number of potential security vulnerabilities and simplifies implementation and maintenance of security safeguards. In terms of responsiveness to policy requirements and customer needs, changes requiring automation support will be easier to implement at a smaller number of facilities. Finally, economies of scale can be achieved by reducing the number of processing sites. These economies take the form of savings in staff as well as savings in processing resources through reduction of redundant software needed to operate the mainframe processing environment.

Federal Reserve Automation Services

Following the Board's endorsement of consolidation of Reserve Bank data processing resources, Federal Reserve Automation Services (FRAS) was established to plan the effort, manage the transition, and operate the consolidation centers. FRAS reports to the board of directors of the Federal Reserve Bank of Richmond, which has delegated general oversight responsibility to a group of senior Federal Reserve officials, the Automation Consolidation Steering Committee (ACSC). All FRAS assets are accounted for on the Richmond Bank's balance sheet; however, FRAS must submit an independent budget to the Board of Governors for approval.

A Director of Automation Resources was appointed in May 1991 to manage FRAS, and an organizational structure was developed and approved by the ACSC. FRAS staff totaled approximately 230 at year-end 1992 and is projected to peak at 330 during 1994. Following completion of the transition, FRAS staffing is projected to stabilize at approximately 275. The majority of the positions have been filled by existing staff from the Federal Reserve Banks. FRAS is headquartered at the Richmond Reserve Bank, where the majority of FRAS's staff is located.

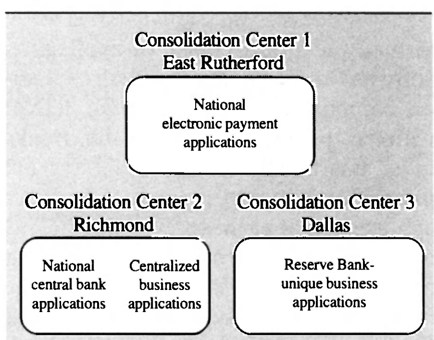
Consolidation Strategy and Process

In the mature automation consolidation environment, the workload will be distributed among the three consolidation centers (chart 4.1) as follows:

- Consolidation center 1 (CC1), located in East Rutherford, will support electronic payment services
- Consolidation center 2 (CC2), located in Richmond, will support centralized applications that satisfy common central bank and business requirements, and also centralized network management
- Consolidation center 3 (CC3), located in Dallas, will support business applications unique to each Reserve Bank.

The Federal Reserve believes that an architecture based on three data centers is optimal for providing production and disaster-recovery capabilities. More than three data centers would add complexity to the design, diluting the benefits to be gained from consolidation. Fewer than three data centers, however, would reduce the number of disaster-recovery sites to a level that would limit the ability to provide adequate redundancy. Within the three-data-center design, the electronic payments workload supported by CC1 is backed-up at CC2; CC3 serves as the secondary backup site in the event CC2 is activated as the primary processing site or is unable to support a CC1 recovery. In addition, CC2 and CC3 provide mutual disaster-recovery support for the production workloads supported at each of these sites (chart 4.2).

Chart 4.1
General Design of Automation Consolidation



Minimizing the risk of disruption to the payments system is the primary criterion governing the transition to automation consolidation. The availability of electronic payment services, in particular, must not decline during the transition. In addition, the transition strategy is designed to provide a relatively rapid transition within reasonable cost parameters.

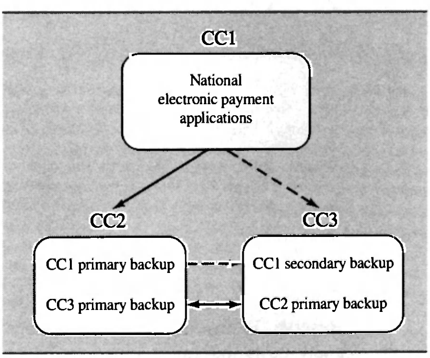
A two-phase approach to automation consolidation is being taken. During the first phase, the large-dollar funds transfer and book-entry securities transfer applications will be moved to interim mainframe processors at CC2, and the remaining Reserve Bank-unique workloads, including the automated clearinghouse service, will be moved to mainframe processors at CC2 and CC3. After the workload transfers, the Reserve Banks will no longer require their mainframe processors and data storage devices. They will, however, retain their peripheral devices, to support all data input and output functions, and these devices will be remotely connected to the consolidation centers using communications equipment. During the first phase, the Federal Reserve Bank of New York will migrate only its noncritical district-unique applications to a consolidation site; its electronic payment services workload is scheduled to be migrated during 1996.

During the second phase of the transition, projected to begin during the third quarter of 1993, new centralized electronic payment applications and support applications, such as centralized accounting and account-balance monitoring, will be installed on a new processing platform at CC1. The electronic payment applications supported on the interim mainframes at CC2 will be converted to the new centralized applications at CC1. Migration of the large-dollar payment applications to the centralized applications at CC1, which is scheduled to be completed by year-end 1995, will facilitate the removal of the interim processing platform at CC2 established during the first phase of the transition.

The second phase of the transition will also include installation of existing and new central bank applications at CC2. To the extent possible, remaining applications unique to the Reserve Banks, such as payroll and purchasing, will be consolidated at CC2 into new national applications that satisfy business requirements common to all Reserve Banks; workloads that continue to be unique to the separate Reserve Banks are expected to be consolidated at CC3.

In summary, the first phase of automation consolidation facilitates the timely consolidation of general-purpose data processing resources while maintaining the continuity of Reserve Bank automation operations. This strategy will minimize the risk of disrupting payment services and will position Reserve Banks to migrate to the new payment applications.

Chart 4.2
Automation Consolidation Disaster-Recovery Arrangements



NOTE. Solid arrows identify primary disaster-recovery arrangements, dashed arrows secondary arrangements.

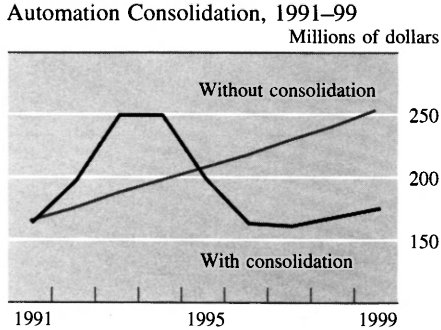
The second phase of automation consolidation focuses on centralization of the payment applications and applications that satisfy common central bank and individual Reserve Bank business requirements. The second phase will be accomplished by implementing new applications that support centralized operations. The new applications will be installed on a new processing platform, and the Reserve Bank workloads will be migrated to the new applications in a controlled fashion.

The transition to consolidated processing will occur over 1992–94 as FRAS builds and staffs its data centers and the Reserve Banks continue to operate their production environments and prepare them for migration to FRAS. Costs will be duplicated during the transition as FRAS builds its capabilities and the Banks continue to operate separate production environments. As operating responsibilities are transferred to FRAS, Reserve Bank computer resources will be reduced. During 1994 and 1995, major software applications will be redesigned and implemented to operate in a consolidated environment, allowing for a reduction of application support staffs at the Banks. Because of cost duplication during the transition period, cost savings are not expected until 1995.

The Reserve Banks are required by the Monetary Control Act to recover all direct and indirect costs incurred in providing Federal Reserve priced services. To maintain price stability, however, the Board has permitted the Banks to recover certain FRAS transition costs in future years, if these costs would have a material effect on prices if recovered totally in the year incurred. Because of the significant one-time expenses that will be incurred from 1992 through 1994 to acquire equipment and to begin the transfer of operating systems to the three automation consolidation centers, the Banks expect to finance a portion of the expenses for automation consolidation.[1] Chart 4.3 shows projected Federal Reserve automation costs with and without automation consolidation.

Automation consolidation is expected to reduce direct data processing costs, primarily through reductions of Reserve Bank staff (chart 4.4). To a lesser extent, cost savings will be realized from the reduced cost for software, supplies, travel, and training. Automation consolidation will also reduce the need for office space at Reserve Banks to support the automation function, thereby reducing related allocated costs to data processing. Because of duplication of equipment during the transition period and expenses for the interim processing platform for payment services, it is expected that cost savings from equipment changes will be not be achieved during first five to eight years of the consolidation effort.

Chart 4.3
Projected Federal Reserve Automation Costs with and without Automation Consolidation, 1991–99



1. The Reserve Banks must impute finance charges for any costs that are deferred to future years. They expect to recover all consolidation expenses by year-end 1999.

Table 4.1
FRAS Expenditures and Staff Levels, 1992 and 1993

Millions of dollars, except as noted

Item	1992 estimate	1993 budget	Change
Direct expenses	21.5	74.5	53.0
Capital outlays	106.8	72.6	–34.2
Average number of personnel	99	296	197

Table 4.2
FRAS Expenses, by Object, 1993

Millions of dollars, except as noted

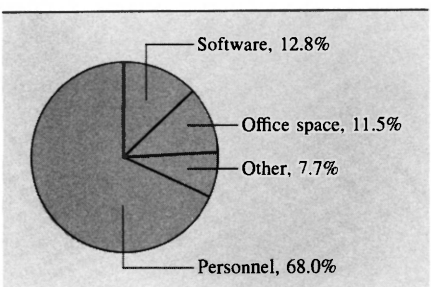
Object	1993 budget	Percentage of total
Personnel	20.6	28
Equipment	38.4	52
Software	11.7	16
Travel	1.5	2
All other	2.3	2
Total	**74.5**	**100**

FRAS Budget

FRAS's 1993 budget for direct expenses of $74.5 million is an increase of $53.0 million over estimated 1992 expenses (table 4.1). The largest component of the increase ($35.9 million) is for equipment depreciation costs. Budgeted expenses of $20.6 million for personnel, an increase of $13.5 million, are associated with the full-year effect of 1992 hiring, 1993 staff additions, and associated benefits (table 4.2). Software-related expenses are increasing by $8.8 million.

Employment is budgeted at 296 average number of personnel (ANP)—an increase of 197 ANP.[2] This large increase is due to the full-year effect of 1992 hiring, combined with anticipated staff additions through 1993. Capital expenditures are expected to be $72.6 million in 1993, down from the estimated 1992 level of $106.8 million.

Chart 4.4
Distribution of Projected Cost Savings due to Automation Consolidation, 1999



2. See chapter 3, note 2, for definition of average number of personnel.

Objects Of Expense

Personnel expenses comprise officer and employee salaries and associated retirement and other benefits. Total personnel costs are budgeted at $20.6 million and account for 28 percent of FRAS's budgeted 1993 expenses. The increase is due to the full-year effect of hires in 1992 and planned additions in 1993. Benefits are budgeted at approximately 18 percent of salary costs.

Nonpersonnel expenses are budgeted at $53.9 million. These expenses are being driven primarily by equipment, software, and travel requirements.

Equipment expenses are budgeted at $38.4 million and account for approximately 52 percent of FRAS's 1993 budget. Equipment depreciation, which accounts for $35.9 million of the equipment expense budget, will be affected significantly by the timing of the 1993 capital acquisitions. Of the amount budgeted for depreciation, $12.0 million is associated with 1993 outlays.

Equipment maintenance expenses are budgeted at $2.1 million; funds will be used mainly for central processing units

(CPUs) and disk and tape drives. Of the budgeted maintenance costs, $1.5 million is for equipment purchased during 1992; the remaining $0.6 million is for maintenance on 1993 acquisitions. Software costs, estimated at $2.9 million in 1992, are budgeted at $11.7 million for 1993, accounting for approximately 16 percent of 1993 spending.

Travel expenses are budgeted at $1.5 million, an increase of $0.5 million over 1992 estimated expenses, and account for 2 percent of FRAS's 1993 budget. Increased travel during the transition will be necessary as the FRAS staff assist Reserve Banks in transferring their workloads to the consolidated processing environment. The remaining direct expenses (such as shipping, communications, and materials and supplies) add $2.3 million and account for 2 percent of FRAS's 1993 expenses.

In addition to the direct expenses discussed above, FRAS will incur expenses of $7.2 million for office space and other support provided by the Reserve Banks during 1993. These expenses, reported in the Automation Consolidation System project, will be shared equally by the twelve Banks.

Capital Outlays

Capital expenditures to establish the three consolidation centers are expected to be approximately $200 million between 1992 and 1995. Capital outlays for 1993 are budgeted at $72.6 million, down from estimated 1992 expenditures of $106.8 million (1992 capital expenditures are estimated to be $2.2 million below the approved capital budget). The 1992 and 1993 capital budgets are for hardware and software to equip the operation sites for centralized data processing, mainly CPUs and disk drives.

Summary

Consolidation represents a fundamental change in the way the Federal Reserve supports general-purpose data processing. Consolidation will enable the Federal Reserve to enhance the reliability of its payment services, provide comparable levels of service to all depository institutions, enhance disaster-recovery capabilities, strengthen control of payment system risk, enhance security, improve responsiveness to change, and increase efficiency. The Federal Reserve has adopted a transition strategy that minimizes the risk of disruption to payment systems, simplifies and expedites the transition process, and will help contain the cost of transition. ■

Appendixes

Appendix A

Special Categories of System Expense

This appendix discusses System expenses for priced services, capital outlays, special projects, and currency printing.

Priced Services

The Monetary Control Act of 1980 requires the Federal Reserve to make available to all depository institutions, for a fee, certain services that the Federal Reserve had previously provided without explicit charge and only to member banks. As the act requires, the cost of providing these services includes all direct and indirect costs, the interest on items credited before actual collection (float), and the private sector adjustment factor (PSAF). The PSAF is the return on capital that would have been provided and the taxes that would have been paid had the services been furnished by a private business firm.

To meet the requirement for the full recovery of costs, the Federal Reserve has developed an annual pricing process involving a review of Reserve Bank expenses in addition to the review required by the budget process. Use of the budgets is an integral part of the pricing exercise because most of the recoverable costs of priced services are direct and indirect costs as determined by the budgets. To assist depository institutions in their planning to provide or use correspondent banking services, the Federal Reserve usually sets each year's prices only once, in the fourth quarter of the preceding year.

Fees for Federal Reserve services must be approved by the product director for the respective service, by the Pricing Policy Committee, and ultimately by the Board of Governors.[1] If fees for any service are set so that the full recovery of costs is not anticipated, the Board announces the rationale.

The cost of float is estimated by applying the current federal funds rate to the level of float expected to be generated in the coming year. Estimates of income taxes and the return on capital are based on tax and financing rates derived from a model of the fifty largest U.S. bank holding companies; these rates are applied to the assets the Federal Reserve expects to use in providing priced services in the coming year. 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 assets); the imputed assessment for insurance by the Federal Deposit Insurance Corporation (FDIC) (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 that is directly related to the development of priced services.

The inclusion of all these costs means the Federal Reserve offers its priced

1. The product directors are the first vice presidents at selected Reserve Banks with responsibility for day-to-day policy guidance over specific Systemwide priced services. The Pricing Policy Committee comprises one governor, the Board's staff director for Federal Reserve Bank activities, and presidents of two Reserve Banks, and the first vice presidents of two other Reserve Banks.

services on a basis comparable with that in the private sector, and the discipline of the market ensures that the prices charged will be no higher than necessary.

Calculation of the PSAF for 1993

In 1992 the Board approved a 1993 private sector adjustment factor for Reserve Bank priced services of $91.4 million, an increase of $11.5 million, or 14.4 percent, over the PSAF of $79.9 targeted for 1992.

Asset Base

The estimated value of Federal Reserve assets to be used in providing priced services in 1993 is $10,483.5 million

Table A.1

Pro Forma Balance Sheet for Federal Reserve Priced Services, 1992 and 1993[1]

Millions of dollars

Item	1992		1993	
ASSETS				
Short-term assets				
Imputed reserve requirement on clearing balances	372.0		534.8	
Investment in marketable securities	2,728.0		5,465.2	
Receivables[2]	32.7		32.6	
Materials and supplies[2]	5.6		5.4	
Prepaid expenses[2]	11.2		9.3	
Items in process of collection	2,868.1		3,826.4	
Total short-term assets		6,017.6		9,873.7
Long-term assets				
Premises[2,3]	341.0		359.0	
Furniture and equipment[2]	139.2		201.0	
Leasehold improvements and long-term prepayments[2]	33.9		49.8	
Capital leases	.1		.0	
Total long-term assets		514.2		609.8
Total assets		**6,531.8**		**10,483.5**
LIABILITIES				
Short-term liabilities				
Clearing balances and balances arising from early credit of uncollected items	3,511.4		6,652.4	
Deferred-credit items	2,456.7		3,174.1	
Short-term debt[4]	49.5		47.3	
Total short-term liabilities		6,017.6		9,873.7
Long-term liabilities				
Obligations under capital leases	.1		.0	
Long-term debt[4]	170.4		201.8	
Total long-term liabilities		170.5		201.8
Total liabilities		6,188.1		10,075.5
Equity[4]		343.7		408.0
Total liabilities and equity		**6,531.8**		**10,483.5**

1. Data are averages for the year.
2. Financed through the private sector adjustment factor; other assets are self-financing.
3. Includes allocations of Board of Governors' assets to priced services of $0.3 million for 1992 and $0.4 million for 1993.
4. Imputed figures representing the source of financing for certain priced-service assets.

(table A.1). The value of assets assumed to be financed through debt and equity in 1993 is $657.1 million, an increase of $93.5 million, or 16.6 percent, over 1992 (table A.2). This increase is primarily the result of assets acquired by the Federal Reserve for the automation consolidation initiative.

Cost of Capital, Taxes, and Other Imputed Costs

For 1993, a pretax rate of return on equity of 8.6 percent is planned. Other required PSAF recoveries for 1993—imputed sales taxes, imputed FDIC insurance assessment, and Board expenses—total $35.0 million, up from

Table A.2
Derivation of the Private Sector Adjustment Factor (PSAF), 1992 and 1993

Millions of dollars, except as noted

Item	1992	1993
PSAF COMPONENTS		
Assets to be financed[1]		
Short-term	49.5	47.3
Long-term[2]	514.1	609.8
Total	563.6	657.1
Cost of capital (percent)[3]		
Short-term debt	7.9	6.2
Long-term debt	9.2	9.0
Pretax return on equity[4]	10.7	8.6
Weighted average long-term cost of capital	10.2	8.8
Capital structure (percent)		
Short-term debt	8.8	7.2
Long-term debt	30.2	30.7
Equity	61.0	62.1
Tax rate (percent)	29.4	29.5
REQUIRED PSAF RECOVERIES		
Capital costs[5]		
Short-term debt	3.9	2.9
Long-term debt	15.7	18.2
Equity	36.8	35.3
Total	56.4	56.4
Other costs		
Sales taxes	10.2	11.4
Assessment for federal deposit insurance	11.4	21.3
Expenses of Board of Governors	1.9	2.3
Total	23.5	35.0
Total PSAF recoveries		
Millions of dollars	**79.9**	**91.4**
As a percentage of capital	**14.2**	**13.9**
As a percentage of expenses	**13.2**	**15.1**

1. The asset base for priced services is directly determined.
2. Total long-term assets less capital leases that are self-financing.
3. All short-term assets are assumed to be financed by short-term debt. Of the total long-term assets, 33 percent are assumed to be financed by long-term debt and 67 percent by equity. The data are average rates paid by the bank holding companies included in the sample.
4. The pretax rate of return on equity is based on average after-tax rates of return on equity, adjusted by the effective tax rate to yield the pretax rate of return on equity for each bank holding company for each year. These data are then averaged over the five years 1987–91 to yield the pretax return on equity for use in the PSAF.
5. The calculations underlying these data use the dollar value of assets to be financed, divided as described in note 3, and the rates for the cost of capital.

$23.5 million approved for 1992 (table A.2). The $11.5 million increase in PSAF recoveries is attributable to a higher premium rate and higher clearing balances held by depository institutions with Reserve Banks.

Capital Outlays

In accordance with generally accepted accounting principles (GAAP), the Federal Reserve System depreciates the cost of fixed assets over their estimated useful lives. In the federal government, where no requirement for depreciation accounting exists, the cost of fixed assets is typically recorded as an expense at the time of purchase. However, the *Policy and Procedures Manual for Guidance of Federal Agencies* of the General Accounting Office, which governs accounting procedures in the federal government, specifies in title 2 the use of depreciation accounting for business types of operations and for activities that recover costs from reimbursements or user charges. Certain activities of the Federal Reserve meet both these criteria. Under GAAP, the cost of acquiring an asset that is expected to benefit an entity over future periods should be allocated over those periods. Such treatment allows a more realistic measurement of operating performance.

The Banks capitalize and depreciate all assets that cost $1,500 or more; they can either capitalize or expense assets costing less. The capitalization guideline for the Board is $1,000.

The Banks maintain a multiyear plan for capital spending. The Board, in turn, requires the Banks to budget annually for capital outlays by capital class to estimate the effect of total operating and capital spending. During the budget year, the Banks must submit proposals for major purchases of assets to the Board for further review and approval. The Board of Governors reviews capital expenditures for the Board.

Special Projects

For 1993 the Board of Governors has approved three special research and development projects intended to provide long-range benefits to the Federal Reserve and the banking industry. Because spending on such projects is relatively high and short-term, the Federal Reserve accounts for these expenditures separately from its operating expenses.

Check Image Processing

In 1988, the Conference of First Vice Presidents of the Reserve Banks approved the concept of testing digital technologies to record images for use in processing checks. The application that provided the strictest parameters was archiving information about government check payments for the Department of the Treasury. This application involves storage of a large amount of data and retrieval of high-quality data, requirements similar to those for processing return items. Consequently, it was decided to explore both applications to determine the feasibility of the technology.

Since the inception of the Check Image Processing special project, each major initiative has been a first-of-its-kind effort to learn what image technology can do and how it can be applied to the processing and collection of checks. The areas of high-, low-, and medium-speed check processing, standards for the interchange of check images, and calibration of check image quality have been explored. During 1993 the basic research in these areas will be concluded, bringing the Federal Reserve and the banking industry to the threshold of a multiyear effort to apply check image technology to interbank functions. The $3.1 million 1993 budget will make it possible to begin implementing high-speed image archival applications in processing government checks, postal money orders, and savings bonds and other areas. Including budgeted 1993 expenses, expenditures on this special project to date total $16.7 million.

Development of Currency Authentication Systems

In 1989, the Federal Reserve initiated a special project for development of an Optical Counterfeit Detection System (OCDS). Later that year the project was renamed Development of Currency Authentication Systems because research efforts included development not only of an OCDS, but also of other authentication alternatives.

OCDS is an effort to improve counterfeit-detection capabilities that will enhance the currency service provided to financial institutions and the public. Other activities include development of both long- and short-term authentication alternatives that are expected to improve the Federal Reserve's ability to detect counterfeit currency. All these efforts should produce counterfeit-detector devices to be placed on the Federal Reserve's high-speed currency-processing equipment.

The 1993 project budget is $4.2 million. Including 1993 budgeted expenses, expenditures on this special project to date total $20.0 million.

Automation Consolidation

In 1992, the Federal Reserve System began to incur expenses for the Automation Consolidation special project. The project will result in consolidation of all mainframe computer operations at three data centers within the System. During 1992, the project focused on developing a project plan and staffing and equipping the data centers. In 1993, emphasis will be on the conversion of District workloads, specifically on two major project milestones: transition of Richmond and Dallas District mainframe applications and migration of District-unique workloads from Atlanta, St. Louis, and Kansas City; and transition of District Electronic Payment Systems (EPS) images to the production environment by November 1993. The 1993 project budget is $73.0 million.

Currency Printing

The Bureau of Engraving and Printing produces currency; the Federal Reserve Banks put it into circulation through depository institutions and destroy it as it wears out. New currency is printed to replace worn notes and to accommodate increases in the demand for circulating currency (table A.3). Notes are also required for inventories held by the Reserve Banks to meet changes in demand.

Table A.3

Currency in Circulation, New Notes Issued, and Notes Destroyed, 1992 Estimate

Millions of pieces

Dollar denomination	Notes in circulation[1]	New notes paid out[2]	Notes destroyed[2]
1	5,121	3,401	3,515
2	449	18	4
5	1,238	835	898
10	1,220	746	838
20	3,432	1,682	1,754
50	722	344	401
100	1,687	424	286
Total	**13,869**	**7,450**	**7,696**

1. As of September 1992.
2. Based on actual levels through October and expected levels for November and December. Notes paid out do not include additions to inventory at the Reserve Banks.

The Federal Reserve Act stipulates that the costs of producing currency, as well as the costs of putting it into circulation and destroying it, be assumed by the Federal Reserve System (table A.4). To minimize the number of new notes ordered and the cost of their printing, the Board consults with the Bureau of Engraving and Printing to ensure that it uses efficient methods, maintains System guidelines on the quality of notes, and sees that Reserve Banks do not destroy notes prematurely. The Board and the Banks also monitor all related costs, such as the costs of transporting and packaging the currency.

Table A.4
Costs to the Federal Reserve of New Currency, 1991–93

Millions of dollars, except as noted

Item	1991 actual	1992 estimated	1993 budget	Percentage change, 1992 to 1993
Printing[1]	253.6	286.2	337.5	17.9
Shipping from Washington and western facility	5.6	5.6	7.0	25.0
Reimbursement to the Treasury for issuance and retirement	2.1	2.0	2.0	.0
Other[2]	...	1.3	.8	−38.5
Total cost of currency	**261.3**	**295.1**	**347.3**	**17.7**

1. Based on 8 billion notes in 1991, 8.5 billion notes in 1992, and 9 billion notes in 1993.
2. Includes intrasystem shipment of fit currency, purchase of currency pallets, and shipment of currency pallets to the Bureau of Engraving and Printing.

Appendix B

Sources and Uses of Funds

The Federal Reserve System, in accordance with generally accepted accounting principles, accrues income and expenses and capitalizes acquisitions of assets whose useful lives extend over several years (see appendix A).

The System derives its income primarily from earnings on U.S. government securities that the Federal Reserve has acquired through open market operations, one of the tools of monetary policy. These earnings account for approximately 86 percent of current income (table B.1).

The current expenses of the Reserve Banks consist of their operating expenses and the costs of the earnings credits granted to depository institutions on clearing balances held with the Reserve Banks (table B.2). The Reserve Banks record extraordinary adjustments to current net income in a profit and loss account. The primary entries in the account are for gains or losses on the sale of U.S. government securities and for gains or losses on assets denominated in foreign currencies that result either from the sale of those assets or from their revaluation at market exchange rates.

The Reserve Banks retain a surplus to cushion unexpected losses, much as commercial establishments retain earnings. The Board of Governors requires that the surplus account at year-end be equal to the capital paid in by the member banks. Since the end of 1964, the Board's policy has been to transfer to the U.S. Treasury all net income after paying the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital. The amount transferred is classified as interest on Federal Reserve notes. Such payments were $20.8 billion in 1991 and are estimated to be $16.8 billion in 1992.

Table B.1

Income of the Federal Reserve System, 1991 and 1992

Millions of dollars

Source	1991 actual	1992 estimate
Loans	25.6	6.2
U.S. government securities	19,262.3	17,336.4
Foreign currencies	2,499.4	2,122.0
Priced services	737.5	757.1
Other	28.3	11.9
Total	**22,553.0**	**20,233.6**

Table B.2

Distribution of the Income of the Federal Reserve Banks, 1991 and 1992

Millions of dollars

Item	1991 actual	1992 estimate
Current income [1]	22,553	20,234
LESS		
Current expenses of Reserve Banks [2]		
Operating expenses	1,265	1,300
Costs of earnings credits	164	175
EQUALS		
Current net income	21,124	18,759
PLUS		
Net additions to, or deductions from (–), current net income [3]	496	–959
LESS		
Cost of unreimbursed Treasury services [4]	90	28
Assessments by the Board		
Board expenses	110	129
Cost of currency	261	295
Other distributions		
Dividends paid to member banks [5]	153	172
Transfers to, or from (–), surplus [6]	228	402
EQUALS		
Payment to U.S. Treasury	**20,778**	**16,774**

1. See table B.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions of $83.1 million in 1991 and $141.0 million in 1992 in credits for net periodic pension cost.

3. This account is the same as that reported under the same name in the table "Income and Expenses of Federal Reserve Banks" in the Statistical Tables section of the Board's *Annual Report* and includes realized and unrealized gains on assets denominated in foreign currencies, gains on sales of U.S. government securities, and miscellaneous gains and losses.

4. The cost of services provided to the U.S. Treasury that are reimbursable under agreements with the Treasury and for which reimbursement is not anticipated.

5. The Federal Reserve Act requires the Federal Reserve to pay dividends to member banks at the rate of 6 percent of paid-in capital.

6. Each year the Federal Reserve transfers to its surplus account an amount sufficient to equate surplus to paid-in capital to provide a reserve against losses.

Appendix C

Federal Reserve System Audits

The Board of Governors, each of the Reserve Banks taken separately, and the Federal Reserve System as a whole are all subject to several levels of audit and review. At each Federal Reserve Bank, a full-time staff of auditors under the direction of a general auditor reports directly to the Bank's board of directors. The Board's Division of Federal Reserve Bank Operations, acting on behalf of the Board of Governors, regularly audits the financial operations of each of the Banks and periodically reviews all other Bank operations. The Office of Inspector General (OIG) conducts audits, operations reviews, and investigations of the programs and operations of the Board and those Board functions delegated to the Federal Reserve Banks. The OIG retains an independent auditor each year to certify the fairness of the Board's financial statements and its compliance with laws and regulations affecting those financial statements.

General Accounting Office

The 1978 passage of the Federal Banking Agency Audit Act (Public Law 95–320) brought most of the operations of the Federal Reserve System under the purview of the General Accounting Office (GAO). The GAO, which currently has 23 projects in various stages of completion, since 1979 has completed 102 reports on selected aspects of Federal Reserve operations (tables C.1 and C.2). The GAO has also involved the Federal Reserve in about 71 other reviews not directly related to the System and has terminated 47 others before completion. The reports are available directly from the GAO.

Table C.1
Active GAO Projects Relating to the Federal Reserve

Subject	Date initiated
Federal tax deposit system	4/9/90
Criminal cases from financial-institution fraud	11/2/90
Debt crisis in less-developed countries	1/25/91
Supervision and examination processes	3/18/91
Financing of multifamily housing	4/22/91
Future banking-industry consolidation	5/31/91
Insider activity at banks	10/24/91
Foreign business structures impeding competition	2/3/92
Asset recovery from financial institution crimes	2/12/92
Regulatory initiatives to stimulate lending	2/26/92
Risk management systems used by depository institutions	4/8/92
Supervision of international banks	5/15/92
Credit card industry	6/2/92
GDP collection	7/2/92
Treasury automated auction system	7/15/92
Secondary mortgage market	8/13/92
Regulatory burdens on depository institutions	8/26/92
Liquidity at commercial banks	9/1/92
Interstate banking and branching in three western states	9/3/92
Loan loss reserve methodologies	9/22/92
Public affairs and congressional affairs activities	10/9/92
Financial crises	10/27/92
Country risk assessments	11/24/92

Table C.2
Completed GAO Reports Relating to the Federal Reserve System

Report	Number	Date
Comparing Policies and Procedures of the Three Bank Regulatory Agencies	GGD-79-27	3/29/79
Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy?	EMD-79-45	6/11/79
Federal Systems Not Designed to Collect Data on All Foreign Investments in U.S. Depository Institutions	GGD-79-42	6/19/79
Considerable Increase in Foreign Banking in United States since 1972	GGD-79-75	8/1/79
Investment Policies, Practices and Performance of Federal Retirement Systems	FPCD-79-17	8/31/79
Federal Supervision of Bank Holding Companies Needs Better, More Formalized Supervision	GGD-80-20	2/12/80
The Federal Reserve Should Assure Compliance with the 1970 Bank Holding Company Act Amendments	GGD-80-21	3/12/80
Federal Agencies' Initial Problems with the Right to Financial Privacy Act of 1978	GGD-80-64	5/29/80
Internal Auditing Can Be Strengthened in the Federal Reserve System	GGD-80-59	8/8/80
Despite Positive Effects, Further Foreign Acquisitions of U.S. Banks Should Be Limited until Policy Conflicts Are Fully Addressed	GGD-80-66	8/26/80
Federal Examinations of Financial Institutions: Issues That Need to Be Resolved	GGD-81-12	1/6/81
Examinations of Financial Institutions Do Not Assure Compliance with Consumer Credit Laws	GGD-81-13	1/21/81
Disappointing Progress in Improving Systems for Resolving Billions in Audit Findings	AFMD-81-27	1/23/81
An Economic Overview of Bank Solvency Regulation	PAD-81-25	2/13/81
Federal Reserve Security over Currency Transportation Is Adequate	GGD-81-27	2/23/81
The Federal Structure for Examining Financial Institutions Can Be Improved	GGD-81-21	4/24/81
Response to Questions Bearing on the Feasibility of Closing the Federal Reserve Banks	GGD-81-49	5/21/81
Bank Secrecy Act Reporting Requirements Have Not Met Expectations, Suggesting Need for Amendment	GGD-81-80	7/23/81
Federal Reserve Could Improve the Efficiency of Bank Holding Company Inspections	GGD-81-79	8/18/81
Financial Institution Regulatory Agencies Should Perform Internal Audit Reviews of their Examination and Supervision Activities	GGD-82-5	10/19/81
Information on Selected Aspects of Federal Reserve System Expenditures	GGD-82-33	2/12/82
Federal Review of Intrastate Branching Can Be Reduced	GGD-82-31	2/24/82
Despite Improvements, Recent Bank Supervision Could Be More Effective and Less Burdensome	GGD-82-21	2/26/82
Issues to Be Considered while Debating Interstate Bank Branching	GGD-82-36	4/9/82
The Federal Reserve Should Move Faster to Eliminate Subsidy of Check-Clearing Operations	GGD-82-22	5/7/82
Information about Depository Institutions' Ancillary Activities Is Not Adequate for Policy Purposes	GGD-82-57	6/1/82
Bank Merger Process Should Be Modernized and Simplified	GGD-82-53	8/16/82
An Analysis of Fiscal and Monetary Policies	PAD-82-45	8/31/82
Bank Examination for Country Risk and International Lending	ID-82-52	9/2/82
Credit Insurance Disclosure Provisions of the Truth-in-Lending Act Consistently Enforced Except When Decisions Appealed	GGD-83-3	10/25/82
Survey of Investor Protection and the Regulation of Financial Intermediaries	GGD-83-30	7/13/83
Financial Institutions Regulatory Agencies Can Make Better Use of Consumer Complaint Information	GGD-83-13	8/25/83
Expediting Tax Deposits Can Increase the Government's Interest Earnings	GGD-84-14	11/21/83
Unauthorized Disclosure of the Federal Reserve's Monetary Policy Decision	GGD-84-40	2/3/84
Federal Financial Institutions Examination Council Has Made Limited Progress toward Accomplishing Its Mission	GGD-84-4	2/3/84
Control Improvements Needed in Accounting for Treasury Securities at the Federal Reserve Bank of New York	AFMD-84-10	5/2/84
Statutory Requirements for Examining International Banking Institutions Need Attention	GGD-84-39	7/11/84

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Report	Number	Date
Supervisory Examinations of International Banking Facilities Need to Be Improved	GGD-84-65	9/30/84
An Examination of Concerns Expressed about the Federal Reserve's Pricing of Check-Clearing Activities	GGD-85-9A	1/14/85
Difficulties in Evaluating the Effectiveness of the Community Reinvestment Act	OCE-86-1	11/4/85
International Coordination of Bank Supervision: The Record to Date	NSIAD-86-40	2/6/86
Implementation of the Export Trading Company Act of 1982	NSIAD-86-42	2/27/86
Information on Independent Public Accountant Audits of Financial Institutions	GGD-84-44FS	4/21/86
An Analysis of Two Types of Pooled Investment Funds	GGD-86-63	5/12/86
How the Markets Are Developed and How They Are Regulated	GGD-86-26	5/15/86
U.S. Banking Supervision and International Supervisory Principles	NSIAD-86-93	7/25/86
Financial Institution Regulators' Compliance Examination	GGD-86-94	8/1/86
The Market's Structure, Risks, and Regulation	GGD-86-80BR	8/20/86
Dealer Views on Market Operations and Federal Reserve Securities Transfer System	GGD-86-147FS	9/29/86
Questions about the Federal Reserve's Securities Transfer System	GGD-87-15BR	10/20/86
Federal Reserve Board Opposition to Credit Card Interest Rate Limits	GGD-87-38BR	4/7/87
Insulating Banks from the Potential Risk of Expanded Activities	GGD-87-35	4/14/87
The Federal Reserve Response Regarding Its Market-Making Standard	GGD-87-55FS	4/21/87
Change in Fees and Deposit Account Interest Rates since Deregulation	GGD-87-70	7/13/87
An Examination of Views Expressed about Access to Brokers' Services	GGD-88-8	12/18/87
Issues Related to Repeal of the Glass–Steagall Act	GGD-88-37	1/22/88
Preliminary Observations on the October 1987 Crash	GGD-88-38	1/26/88
Supervision of Overseas Lending Is Inadequate	NSIAD-88-87	5/5/88
Competitive Concerns of Foreign Financial Firms in Japan, the United Kingdom and the United States	NSIAD-88-171	6/2/88
Administrative Expenses at FHLBB and FRB for 1985 and 1986	AFMD-88-33	6/15/88
Government in the Sunshine Act Compliance at Selected Agencies	GGD-88-97	7/20/88
Trends in Commercial Bank Performance, December 1976–June 1987	GGD-88-106BR	7/28/88
U.S. Commercial Banks' Securities Activities in London	NSIAD-88-238	9/8/88
Lending to Troubled Sectors	GGD-88-126BR	9/26/88
Government Check-Cashing Issues	GGD-89-12	10/7/88
Conflict of Interest: Abuses in Commercial Banking Institutions	GGD-89-35	1/27/89
Competitive Fairness Is an Elusive Goal	GGD-89-61	5/12/89
Independent Audits Needed to Strengthen Internal Control and Bank Management	AFMD-89-25	5/31/89
Information on the System's Check Collection Service	GGD-90-17	12/15/89
Oversight of Critical Banking Systems Should Be Strengthened	IMTEC-90-14	1/14/90
Activities of Securities of Bank Holding Companies	GGD-90-48	3/14/90
The Stock, Options, and Futures Markets Are Still at Risk	GGD-90-33	4/11/90
Update on U.S. Commercial Banks' Securities in London	NSIAD-90-98	5/7/90
U.S. Financial Services' Competitiveness under the Single Market Program	NSIAD-90-99	5/21/90
Limited Public Demand for New Dollar Coin or Elimination of Pennies	GGD-90-88	5/23/90
Oversight of Automation Used to Clear and Settle Trades Is Uneven	IMTEC-90-47	7/12/90
The Government's Exposure to Risks	GGD-90-97	8/15/90
Office of Inspector General Operations at Financial Regulatory Agencies	AFMD-90-55FS	8/24/90
Additional Reserves and Reform Needed to Strengthen the Fund	AFMD-90-100	9/11/90
More Transaction Information and Investor Protection Measures Are Needed	GGD-90-114	9/14/90
Issues Relating to Banks Selling Insurance	GGD-90-113	9/25/90
Implementation of Risk-Based Capital Adequacy Standards	NSIAD-91-80	1/25/91
Overview of Six Foreign Systems	NSIAD-91-104	2/22/91
Deposit Insurance: A Strategy for Reform	GGD-92-26	3/4/91
Bank Supervision: Prompt and Forceful Regulatory Actions Needed	GGD-91-69	4/15/91

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Continued

Report	Number	Date
Many Federal Agencies Collect and Disseminate Information	NSIAD-91-173	5/1/91
Money Laundering: The U.S. Government Is Responding to the Problem	NSIAD-91-130	5/16/91
A Framework for Limiting the Government's Exposure to Risks	GGD-91-90	5/22/91
Treasury Tax and Loan Activity at Two Troubled Banks	AFMD-91-87	9/12/91
OCC's Supervision of the Bank of New England Was Not Timely or Forceful	GGD-91-128	9/16/91
Bank Holding Company Securities Subsidiaries' Market Activities Update	GGD-91-131	9/20/91
Time Limits on Holding Deposits Generally Met but More Oversight Needed	GGD-91-132	9/30/91
Legislation Needed to Strengthen Bank Oversight	AFMD-92-19	10/21/91
Contracting Practices with Data Processing Servicers	GGD-92-19	2/5/92
Challenges to Harmonizing International Capital Standards Remain	GGD-92-41	3/10/92
Assessing the Need to Regulate Additional Financial Activities	GGD-92-70	4/21/92
Call Report Automation	IMTEC-92-60R	5/28/92
Flexible Accounting Rules Lead to Inflated Financial Reports	AFMD-92-52	6/1/92
Cross-Border Information Sharing Is Improving, but Obstacles Remain	GGD-92-110	7/28/92
Changes in Collateral Practices Could Reduce the Federal Government's Risk of Loss	AFMD-92-54	9/14/92
Initial Assessment of Certain BCCI Activities in the U.S.	GGD-92-96	9/30/92
Appraisal Reform: Implementation Status and Unresolved Issues	GGD-93-19	10/30/92

Office of Inspector General

The Board's Office of Inspector General functions in accordance with the Inspector General Act of 1978, as amended. The OIG provides policy direction for audits, operations reviews, and investigations of the programs and operations of the Board and its delegated functions at the Federal Reserve Banks, and plans and conducts them. The OIG also reviews existing and proposed legislation and regulations for economy and efficiency. It recommends policies and supervises and conducts activities that promote economy and efficiency and that prevent and detect waste, fraud, and abuse in Board and Board-delegated programs and operations. In addition, it coordinates its efforts with other governmental and nongovernmental agencies to promote economy and efficiency and to detect and prevent fraud and abuse in activities administered or financed by the Board. The OIG keeps the Congress and the Chairman of the Board fully informed about serious abuses and deficiencies and about the status of any corrective actions.

During 1992, the OIG reported on six audits and three operations reviews, closed out thirty-five investigations, and conducted more than 300 legislative and regulatory reviews. Audit reports issued during 1992 addressed the Board's secure voice operations; the fairness of the financial statements of the Board and the Federal Financial Institutions Examination Council, and each agency's compliance with applicable laws and regulations; the Board's budget process; the Board's leave system; and key controls related to the retirement and thrift plans of Board employees as part of a public accounting firm's audit of the Federal Reserve Employee Benefits Plans. Operations review reports were issued on the Office of the Staff Director for Management, the Division of Support Services, and the Office of the Controller. An audit of the administrative operations of the Federal Financial Institutions Examination Council was reported to the council. ■

Appendix D

Expenses and Employment at the Federal Reserve Banks

Table D.1

Operating Expenses of the Federal Reserve Banks, by District, 1992 and 1993[1]

Thousands of dollars, except as noted

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	91,030	97,165	6,135	6.7
New York	326,988	357,616	30,628	9.4
Philadelphia	90,190	98,483	8,293	9.2
Cleveland	92,022	96,901	4,879	5.3
Richmond	124,154	131,409	7,254	5.8
Atlanta	152,519	167,114	14,595	9.6
Chicago	177,656	193,990	16,334	9.2
St. Louis	72,054	78,235	6,181	8.6
Minneapolis	74,047	81,009	6,962	9.4
Kansas City	101,950	110,117	8,167	8.0
Dallas	110,133	118,323	8,190	7.4
San Francisco	183,534	192,139	8,605	4.7
Total, all Districts	**1,596,276**	**1,722,500**	**126,224**	**7.9**
Special projects				
Check Image Processing	4,288	3,052	−1,236	...
Currency Authentication Systems	5,613	4,238	−1,374	...
Automation Consolidation	22,669	73,005	50,336	...
Total	32,570	80,295	47,726	...
Total	1,628,846	1,802,795	173,949	10.7

1. Excludes capital outlays.

Table D.2

Employment at the Federal Reserve Banks, by District, 1992 and 1993

Average number of personnel, except as noted[1]

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	1,461	1,448	−13	−.9
New York	4,281	4,364	83	1.9
Philadelphia	1,461	1,470	9	.6
Cleveland	1,428	1,399	−29	−2.0
Richmond	2,119	2,132	13	.6
Atlanta	2,429	2,481	52	2.1
Chicago	2,615	2,683	67	2.6
St. Louis	1,196	1,205	9	.7
Minneapolis	1,135	1,213	78	6.9
Kansas City	1,636	1,662	26	1.6
Dallas	1,695	1,686	−10	−.6
San Francisco	2,558	2,544	−14	−.5
Total, all Districts	**24,014**	**24,286**	**272**	**1.1**
Special projects				
Check Image Processing	2	2	0	...
Currency Authentication Systems	0	0	0	...
Automation Consolidation[2]	104	298	194	...
Total	106	300	194	...
Total	24,120	24,586	466	1.9

1. See chapter 3, note 2, for definition of average number of personnel (ANP).
2. For presentation purposes, FRAS staff are included with the Automation Consolidation special project.

Table D.3

Expenses of the Federal Reserve Banks, by Operational Area, 1992 and 1993

Thousands of dollars, except as noted

Operational area	1992 estimate	1993 budget	Change	
			Amount	Percent
Monetary and economic policy	110,531	119,619	9,088	8.2
Services to the U.S. Treasury and other government agencies	181,359	196,747	15,389	8.5
Services to financial institutions and the public	1,027,642	1,084,884	57,242	5.6
Supervision and regulation	276,745	321,249	44,504	16.1
Total	**1,596,276**	**1,722,500**	**126,224**	**7.9**
MEMO[1]				
Support	508,228	559,053	50,825	10.0
Overhead	441,777	489,164	47,386	10.7

1. The costs of support and overhead are included in the expenses by operational area shown above. Support refers to activities, such as data processing, whose costs can be charged to users according to the amount of use. Overhead refers to activities, such as auditing, whose costs are charged according to the users' shares of total direct costs.

Table D.4

Expenses of the Federal Reserve Banks
for Monetary and Economic Policy, by District, 1992 and 1993

Thousands of dollars, except as noted

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	5,712	6,325	613	10.7
New York[1]	42,857	44,991	2,134	5.0
Philadelphia	4,219	4,763	545	12.9
Cleveland	5,199	5,432	233	4.5
Richmond	5,153	5,717	564	10.9
Atlanta	6,855	7,562	706	10.3
Chicago	7,247	7,882	636	8.8
St. Louis	5,547	5,999	452	8.1
Minneapolis	5,737	6,359	622	10.8
Kansas City	5,515	6,250	735	13.3
Dallas	7,132	8,144	1,013	14.2
San Francisco	9,358	10,195	837	8.9
Total	**110,531**	**119,619**	**9,088**	**8.2**

1. Expenses of open market trading operations, located in the New York District, are $21.0 million for 1992 and $21.9 million for 1993.

Table D.5

Expenses of the Federal Reserve Banks for Services
to the U.S. Treasury and Other Government Agencies, by District, 1992 and 1993

Thousands of dollars, except as noted

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	9,302	10,167	865	9.3
New York	39,321	42,443	3,122	7.9
Philadelphia	19,626	21,529	1,903	9.7
Cleveland	13,904	15,160	1,255	9.0
Richmond	11,292	12,139	848	7.5
Atlanta	15,441	16,129	688	4.5
Chicago	19,476	21,323	1,847	9.5
St. Louis	9,406	10,124	718	7.6
Minneapolis	7,026	9,006	1,980	28.2
Kansas City	11,849	12,518	669	5.6
Dallas	9,963	11,045	1,082	10.9
San Francisco	14,753	15,164	411	2.8
Total	**181,359**	**196,747**	**15,389**	**8.5**

Table D.6

Expenses of the Federal Reserve Banks
for Services to Financial Institutions and the Public, by District, 1992 and 1993

Thousands of dollars, except as noted

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	62,637	65,838	3,201	5.1
New York	174,168	184,282	10,114	5.8
Philadelphia	52,516	54,890	2,374	4.5
Cleveland	60,602	63,008	2,406	4.0
Richmond	92,128	95,797	3,670	4.0
Atlanta	108,525	117,390	8,865	8.2
Chicago	116,472	123,881	7,409	6.4
St. Louis	46,232	49,815	3,583	7.7
Minneapolis	48,053	51,168	3,114	6.5
Kansas City	63,190	67,802	4,612	7.3
Dallas	72,072	77,211	5,139	7.1
San Francisco	131,048	133,803	2,755	2.1
Total	**1,027,642**	**1,084,884**	**57,242**	**5.6**

Table D.7

Expenses of the Federal Reserve Banks
for Supervision and Regulation, by District, 1992 and 1993

Thousands of dollars, except as noted

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	13,379	14,834	1,455	10.9
New York	70,642	85,901	15,259	21.6
Philadelphia	13,830	17,301	3,471	25.1
Cleveland	12,317	13,301	984	8.0
Richmond	15,582	17,755	2,173	13.9
Atlanta	21,699	26,033	4,335	20.0
Chicago	34,460	40,903	6,443	18.7
St. Louis	10,869	12,298	1,428	13.1
Minneapolis	13,231	14,477	1,246	9.4
Kansas City	21,395	23,547	2,152	10.1
Dallas	20,966	21,923	957	4.6
San Francisco	28,375	32,977	4,602	16.2
Total	**276,745**	**321,249**	**44,504**	**16.1**

Table D.8

Expenses of the Federal Reserve Banks
for Salaries of Officers and Employees, by District, 1992 and 1993

Thousands of dollars, except as noted

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	52,857	55,046	2,189	4.1
New York	171,378	185,568	14,190	8.3
Philadelphia	47,020	49,312	2,292	4.9
Cleveland	45,090	45,770	680	1.5
Richmond	64,317	68,314	3,997	6.2
Atlanta	75,097	80,451	5,354	7.1
Chicago	90,243	97,636	7,393	8.2
St. Louis	36,333	38,252	1,919	5.3
Minneapolis	37,729	41,501	3,772	10.0
Kansas City	53,739	56,818	3,079	5.7
Dallas	55,002	56,310	1,307	2.4
San Francisco	96,586	101,262	4,677	4.8
Total	**825,391**	**876,239**	**50,848**	**6.2**

Table D.9

Factors in the 1992-to-1993 Change in Salaries
of Officers and Employees of the Federal Reserve Banks, by District

Percentage points

District	Merit adjustment	Structure adjustment	Promotion and reclassification	Change in staffing	Turnover and lag[1]	Overtime	Other	Total change
Boston	3.7	.0	1.2	–.3	–.1	.0	–.4	4.1
New York	4.6	.1	1.1	3.6	–1.0	–.2	.0	8.3
Philadelphia	4.1	.1	.4	1.8	–.3	–1.3	.0	4.9
Cleveland	3.7	.0	.3	1.1	–.6	.0	–2.9	1.5
Richmond	4.5	.0	1.7	1.7	–1.3	–.3	.0	6.2
Atlanta	4.3	.1	.8	2.4	–.3	–.2	.0	7.1
Chicago	4.7	.0	1.2	3.2	–1.0	.0	.1	8.2
St. Louis	4.4	.2	.5	.5	–.2	–.2	.1	5.3
Minneapolis	4.1	.3	.6	5.2	.0	.1	–.4	10.0
Kansas City	4.5	.3	1.4	.6	–.9	–.1	.0	5.7
Dallas	4.3	.2	.3	–.7	–1.6	–.2	.1	2.4
San Francisco	4.3	.7	.8	–.5	–.2	–.2	.0	4.8
Total	**4.3**	**.2**	**.9**	**1.8**	**–.7**	**–.2**	**–.2**	**6.2**

1. Turnover is the replacement of a departing employee with one having a lower pay grade. Lag is the time during which a position remains vacant.

Table D.10

Capital Outlays of the Federal Reserve Banks, by District, 1992 and 1993

Thousands of dollars, except as noted

District	1992 estimate	1993 budget	Change	
			Amount	Percent
Boston	8,193	14,573	6,380	77.9
New York	67,005	57,012	−9,994	−14.9
Philadelphia	9,105	15,410	6,305	69.2
Cleveland	11,508	15,082	3,575	31.1
Richmond[1]	124,015	94,840	−29,175	−23.5
Atlanta	16,822	25,330	8,509	50.6
Chicago	17,189	56,417	39,227	228.2
St. Louis	5,032	9,716	4,685	93.1
Minneapolis	5,953	17,982	12,030	202.1
Kansas City	4,449	5,511	1,062	23.9
Dallas	49,130	4,843	−44,287	−90.1
San Francisco	22,669	21,632	−1,037	−4.6
Total	**341,070**	**338,348**	**−2,722**	**−.8**

1. Includes FRAS capital of $106,789 thousand in 1992 and $72,649 thousand in 1993.

Table D.11

Budget Performance of the Federal Reserve Banks,
Operating Expenses, by District, 1992

Thousands of dollars, except as noted

District	1992 budget	1992 estimate	Change	
			Amount	Percent
Boston	92,730	91,030	−1,700	−1.8
New York	324,552	326,988	2,436	.8
Philadelphia	88,390	90,190	1,800	2.0
Cleveland	91,022	92,022	1,000	1.1
Richmond	123,212	124,154	942	.8
Atlanta	151,952	152,519	567	.4
Chicago	181,205	177,656	−3,549	−2.0
St. Louis	72,177	72,054	−123	−.2
Minneapolis	74,049	74,047	−2	.0
Kansas City	101,070	101,950	880	.9
Dallas	111,420	110,133	−1,287	−1.2
San Francisco	184,626	183,534	−1,092	−.6
Total	**1,596,405**	**1,596,276**	**−127**	**.0**
Special projects				
Check Image Processing	4,290	4,288	−2	. . .
Currency Authentication Systems	9,286	5,613	−3,673	. . .
Automation Consolidation	26,124	22,669	−3,455	. . .
Total	39,700	32,570	−7,130	. . .
Total	1,636,105	1,628,846	−7,257	−.4

Table D.12

Budget Performance of the Federal Reserve Banks, Employment, by District, 1992

Average number of personnel, except as noted[1]

District	1992 budget	1993 estimate	Change	
			Amount	Percent
Boston	1,476	1,461	–15	–1.0
New York	4,177	4,281	104	2.5
Philadelphia	1,402	1,461	59	4.2
Cleveland	1,438	1,428	–10	–.7
Richmond	2,075	2,119	44	2.1
Atlanta	2,433	2,429	–4	–.2
Chicago	2,643	2,615	–28	–1.0
St. Louis	1,200	1,196	–4	–.3
Minneapolis	1,117	1,135	18	1.6
Kansas City	1,626	1,636	9	.6
Dallas	1,718	1,695	–23	–1.4
San Francisco	2,565	2,558	–7	–.3
Total, all Districts	**23,872**	**24,014**	**143**	**.6**
Special projects				
Check Image Processing	2	2	0	...
Currency Authentication Systems	0	0	0	...
Automation Consolidation[2]	139	104	–35	...
Total	141	106	–35	...
Total	24,013	24,120	108	.4

1. See chapter 3, note 2, for definition of average number of personnel (ANP).
2. For presentation purposes, FRAS staff are included with the Automation Consolidation special project.

Table D.13

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1988–93

Thousands of dollars, except as noted

Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Total
1988	87,283	141,524	848,481	185,090	1,262,379
1989	93,553	145,547	916,310	195,076	1,350,487
1990	98,973	156,934	938,862	211,884	1,406,652
1991	106,699	169,483	980,379	237,369	1,493,930
1992 estimate	110,531	181,359	1,027,642	276,745	1,596,276
1993 budget	119,619	196,747	1,084,884	321,249	1,722,500
MEMO					
Average annual change, percent	6.5	6.8	5.0	11.7	6.4

Table D.14

Employment at the Federal Reserve Banks, by Operational Area, 1988–93

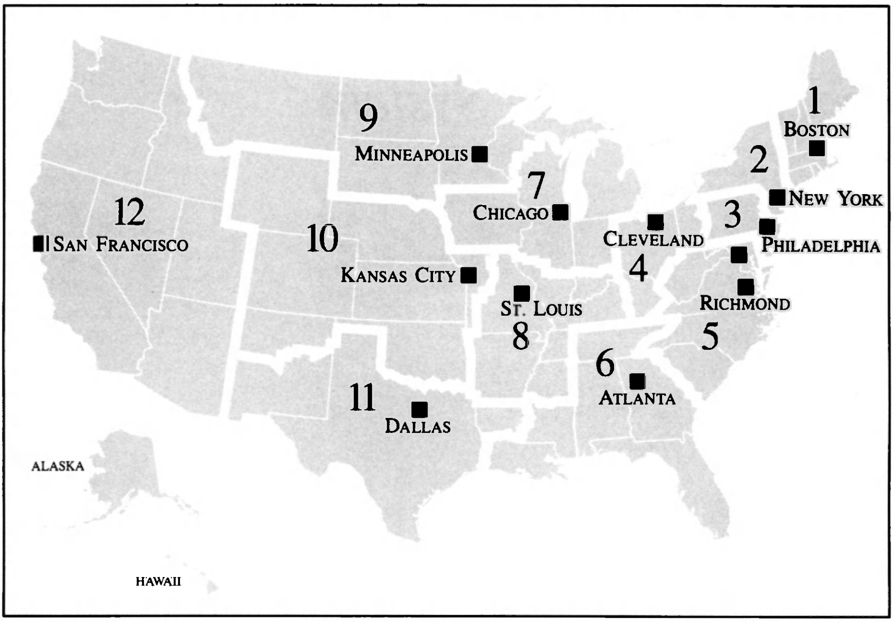
Average number of personnel, except as noted[1]

Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Support[2]	Overhead[2]	Total
1988	766	1,819	9,033	2,209	4,562	4,952	23,340
1989	783	1,771	9,423	2,198	4,552	4,947	23,674
1990	773	1,817	9,215	2,217	4,533	4,941	23,496
1991	784	1,870	9,044	2,343	4,629	4,924	23,594
1992 estimate	778	1,838	8,966	2,629	4,780	5,025	24,014
1993 budget	787	1,822	8,723	2,929	4,781	5,244	24,286
MEMO							
Average annual change (percent)	.5	.0	–.7	5.8	1.0	1.1	.8

1. See chapter 3, note 2, for definition of average number of personnel (ANP).
2. See table D.3, note 1, for definition.

Maps of the Federal Reserve System

The Federal Reserve System



LEGEND

Both pages

■ Federal Reserve Bank city

⧈ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

• Federal Reserve Branch city

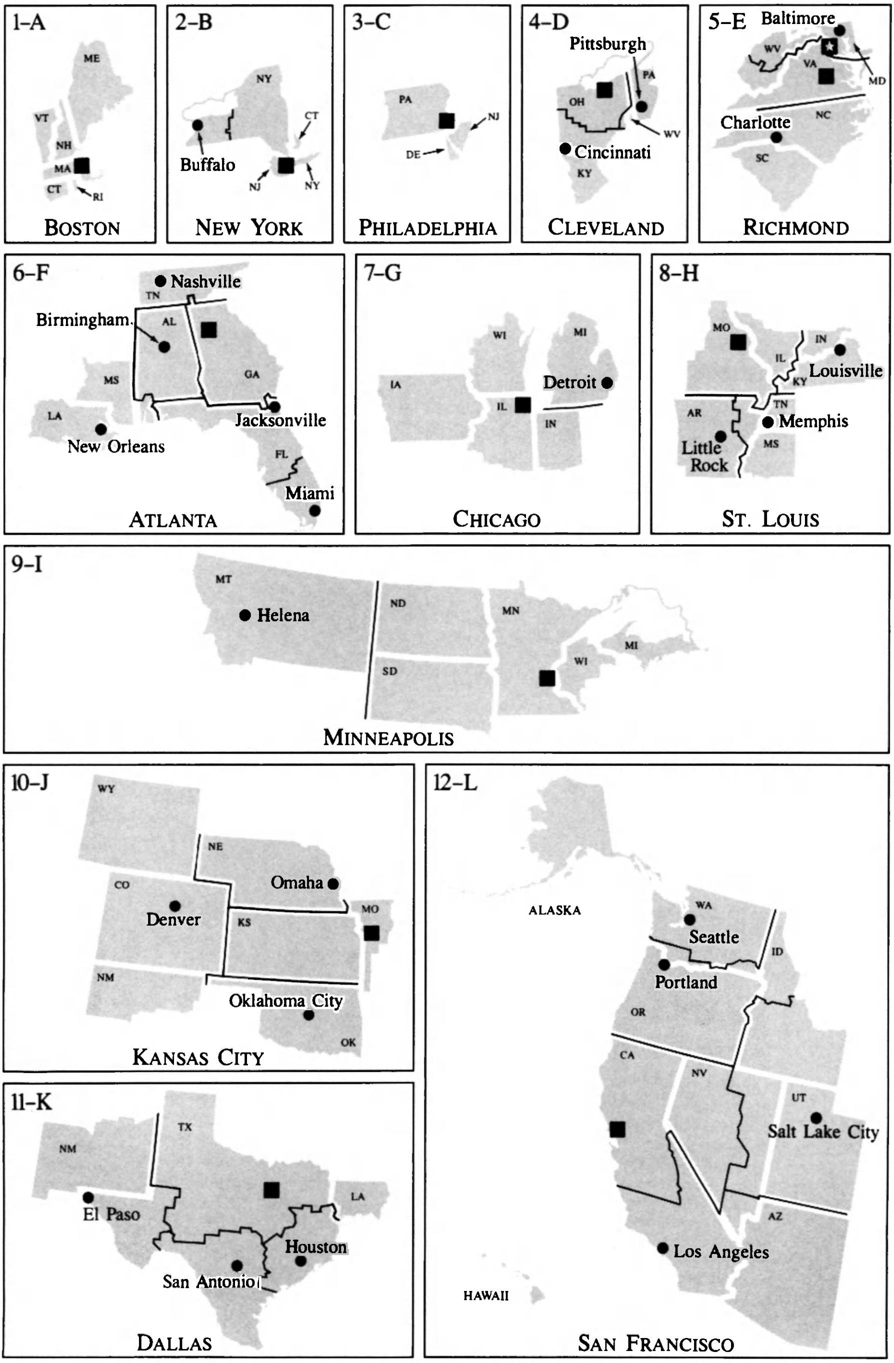
— Branch boundary

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 February 1993.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NEW YORK
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DE
PHILADELPHIA
4-D
Pittsburgh
PA
OH
WV
Cincinnati
KY
CLEVELAND
5-E
Baltimore
WV
VA
MD
Charlotte
NC
SC
RICHMOND
6-F
Nashville
TN
Birmingham
AL
MS
GA
LA
Jacksonville
New Orleans
FL
Miami
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Oklahoma City
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El Paso
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