

Annual Report: Budget Review

Board of Governors of the Federal Reserve System

2008

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Introduction

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

The duties of the Federal Reserve fall into four general areas: (1) conducting the nation’s monetary policy by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates; (2) supervising and regulating banking institutions to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers; (3) maintaining the stability of the financial system and containing systemic risk that may arise in financial markets; and (4) providing financial services to depository institutions, the U.S. government, and foreign official institutions.

The Federal Reserve System plays a major role in the nation’s payment systems. The Reserve Banks distribute currency and coin; process Fedwire, automated clearinghouse, and securities transfers; and collect checks. In addition, the Reserve Banks serve as the fiscal agents of the United States and provide a variety of financial services for the Treasury, other government agencies, and other fiscal

principals. For a fuller discussion of the Federal Reserve’s responsibilities, see the Board publication *The Federal Reserve System: Purposes and Functions*.

Summary of 2007 Income and Expenditures

In carrying out its responsibilities in 2007, the Federal Reserve System incurred \$1.8 billion in net operating expenses. Total spending of \$3.3 billion was offset by \$1.5 billion in revenue from priced services, claims for reimbursement, and other income. Total 2007 operating expenses were \$20.9 million, or 0.6 percent, more than the amount budgeted for the year (table I.1).¹

The major source of Reserve Bank income is earnings from the portfolio of U.S. government securities in the System Open Market Account, totaling \$40.3 billion in 2007. Earnings in excess of expenses, dividends, and surplus are transferred to the U.S. Treasury—in 2007 a total of \$34.6 billion. (These earnings are treated as receipts in the U.S. budget accounting system and as anticipated earnings projected by the Office of Management and Budget in the U.S. budget.)

Operational Areas

In 2007 the Federal Reserve System accounted for costs using the follow-

1. Beginning with the 1998–99 budget, the Board of Governors has operated on a two-year budget cycle and a four-year planning cycle. Given their current business needs, the Federal Reserve Banks maintain an annual budget cycle. For more information on the budget processes, see appendix A.

Table I.1

Operating Expenses of the Federal Reserve System, 2007

Millions of dollars, except as noted

Entity	Budgeted	Actual	Variance	
			Amount	Percent
Reserve Banks	2,953.3	2,983.5	30.2	1.0
Board of Governors.....	314.8	305.5	-9.3	-3.0
Total	3,268.1	3,289.0	20.9	0.6

ing categories: monetary and economic policy, supervision and regulation of financial institutions, services to financial institutions and the public, services to the U.S. Treasury and other government agencies, and System policy direction and oversight.

Monetary and Economic Policy

The monetary and economic policy operational area encompasses Federal Reserve actions to influence the availability and cost of money and credit in the nation's economy. In 2007, the Federal Open Market Committee held eight regularly scheduled meetings and adjusted the federal funds rate three times.

A vast amount of banking and financial data flows through the Reserve Banks to the Board, where the data are compiled and made available to the public. The research staffs at the Board and 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. The Board and the FOMC use these analyses and projections in setting

reserve requirements, setting the discount rate (which affects the cost of borrowing), and conducting open market operations. Staff members also conduct longer-run economic studies on regional, national, and international issues.

Supervision and Regulation of Financial Institutions

The Federal Reserve 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 2007, the Federal Reserve conducted 479 examinations of state member banks (some of them jointly with state agencies), 476 inspections of large bank holding companies, and 3,007 inspections of small, noncomplex bank holding companies; it acted on 1,365 proposals, representing 2,661 individual applications involving bank holding company formations and acquisitions, bank mergers, and other transactions.

The Board also enforces compliance by state member banks and certain for-

eign banking organizations with federal laws protecting consumers in their use of credit and deposit products. Between July 1, 2006, and June 30, 2007, the System conducted 324 consumer compliance examinations: 312 covering state member banks and 12 covering foreign banking organizations. Also during that period, the System conducted 271 Community Reinvestment Act examinations.

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

Services to Financial Institutions and the Public

The Federal Reserve System plays a central role in the nation's payment systems by ensuring that enough currency and coin are in circulation to meet the public's demand. The Bureau of Engraving and Printing prints currency and the U.S. Mint mints coin, which the Reserve Banks distribute to the public through depository institutions. The Reserve Banks also receive deposits of currency and coin from depository institutions; identify suspect currency, which they forward to the U.S. Secret Service; and destroy currency that is unfit for circulation. In 2007, the Reserve Banks received approximately \$696.2 billion in currency and \$6.1 billion in coin from depository institutions, distributed approximately \$704.1 billion in currency and \$7.5 billion in coin, and destroyed \$104.1 billion in unfit currency.

The Reserve Banks also play a central role in the nation's payment systems by collecting checks and providing a variety of electronic services for depository institutions. In 2007, the Banks collected approximately 9.9 billion commercial checks, with a total value of about \$15.7 trillion. The Banks' automated clearinghouse (ACH) service allows depository institutions to send or receive credit and debit payment transactions. The ACH service is typically used for check payments, such as payroll, dividend, mortgage, and bill payments. In 2007, the Reserve Banks processed approximately 10.4 billion ACH transactions, valued at about \$18.3 trillion. Approximately 9.9 percent of the transactions were for the federal government; the rest were for commercial establishments.

The Reserve Banks' Fedwire Funds Service allows participants in the service to use their reserve or clearing balances at the Reserve Banks to transfer funds to other participants. In 2007, the Banks processed approximately 135 million Fedwire funds transfers, valued at more than \$670 trillion.

The Reserve Banks' National Settlement Service allows participants in private clearing arrangements to settle transactions through their Federal Reserve accounts. Approximately 54 local and national private arrangements, primarily check clearinghouse associations but also other types of arrangements, use the National Settlement Service. In 2007, the Banks processed over 504,000 settlement entries for these arrangements.

The Reserve Banks' Fedwire Securities Service provides securities services to participants, including the settlement of book-entry transfers of securities issued by the U.S. Treasury, federal government agencies, government-sponsored enterprises, and certain international organizations. In 2007, participants originated approximately 25 million transfers, valued at about \$435 trillion.

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

Pursuant to the Federal Reserve Act, the Reserve Banks provide fiscal agency and depository services to the U.S. government and other fiscal principals. These services relate to securities custody and transfer, payments, deposits, and customer support. The federal government and other fiscal principals reimburse the Banks for the cost of providing these services. In 2007, the Reserve Banks sought reimbursement of \$458.2 million. Reimbursement was received or is expected for all of the expenses incurred.²

The Reserve Banks issue, service, and redeem marketable Treasury securities and savings bonds and process secondary-market Fedwire securities transfers. In 2007, the Banks processed 104,000 commercial tenders for Treasury securities and printed and mailed nearly 25 million savings bonds. The Reserve Banks operate two book-entry (computer-based) securities systems for the custody of Treasury securities—the Fedwire Securities Service and a separate computer application designed for retail investors who plan to hold these securities until maturity. Almost all book-entry Treasury securities are maintained on Fedwire, which is also the nation’s principal securities-transfer mechanism.

2. The Reserve Banks are required by the Federal Reserve Act to serve as fiscal agents and depositories of the United States. By statute, the Department of the Treasury is permitted, but not required, to pay for these services.

The Reserve Banks collect and disburse funds on behalf of the federal government. They maintain the Treasury’s bank account, accept deposits, pay checks drawn on the Treasury’s account, and make Fedwire and automated clearinghouse payments for the Treasury. In 2007, the Banks continued to assist the Treasury in its efforts to receive and make payments electronically. For example, they operated the Pay.gov Internet portal, which enables the public to make payments to the Treasury and other federal government agencies over the Internet.

The Reserve Banks also provide fiscal agency and depository services to other domestic and international entities. Depending on the authority under which the services are provided, the Banks may maintain book-entry accounts of securities, provide custody for the stock of unissued definitive (physical) securities, maintain and update balances of outstanding book-entry and definitive securities for issuers, and maintain related funds accounts.

System Policy Direction and Oversight

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

The Budgets

Chapter 1

Federal Reserve System

Total operating expenses for the Federal Reserve System for 2008 are budgeted at \$3,427.1 million, an increase of 4.2 percent from 2007 expenses. Of this total, \$3,067.0 million is for the Reserve Banks and \$360.1 million is for the Board of Governors (tables 1.1 and 1.2).¹ Revenue from priced services provided to depository institutions is expected to amount to \$896.2 million, or 26 percent of budgeted operating expenses, and total recoveries (revenue from priced services combined with other expected income and claims for reimbursement) to amount to 40 percent of budgeted operating expenses.² Deducting total recoveries from

budgeted expenses results in 2008 net System operating expenses 13.1 percent higher than 2007 net System operating expenses.

Not included in the budget for operations is the cost of supplying currency, budgeted at \$602.4 million for 2008, an increase of 4.6 percent from the 2007 cost of \$576.0 million.³ Including the cost of supplying currency, the distribution of budgeted expenses is similar to that in previous years, with the Reserve Banks' expenses accounting for 76 percent of the total, currency expenses accounting for

1. The Board of Governors budgets on a two-year cycle; in this chapter, 2008 values shown for the System and the Board reflect the estimated first-year effect of the Board's 2008–09 budget.

2. Other income comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services (including the transfer of funds between depository institutions

and the Treasury). *Claims for reimbursement* refers to the costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to these agencies.

3. The Federal Reserve pays for the printing of new currency at the Bureau of Engraving and Printing. That cost is not included in Federal Reserve System operating expenses. For more information, see appendix C, "Currency Budget."

Table 1.1

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 2006–2008

Millions of dollars, except as noted

Item	2006 (actual)	2007 (actual)	2008 (budgeted)	Percent change	
				2006 to 2007	2007 to 2008
Total System operating expenses	3,071.9	3,289.0	3,427.1	7.1	4.2
LESS					
Revenue from priced services	1,031.2	1,012.3	896.2	–1.8	–11.5
Other income	1.2	1.4	1.6	18.8	12.7
Claims for reimbursement ¹	426.4	458.2	474.1	7.5	3.4
EQUALS					
Net System operating expenses	1,613.2	1,817.1	2,055.2	12.6	13.1

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

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

Table 1.2

Expenses of the Federal Reserve System for Operations and Currency, 2006–2008

Millions of dollars, except as noted

Item	2006 (actual)	2007 (actual)	2008 (budgeted)	Percent change	
				2006 to 2007	2007 to 2008
Reserve Banks ¹	2,776.0	2,983.5	3,067.0	7.5	2.8
Personnel.....	1,814.1	2,013.7	2,062.2	11.0	2.4
Nonpersonnel.....	961.9	969.8	1,004.8	0.8	3.6
Board of Governors ²	295.9	305.5	360.1	3.2	17.9
Personnel.....	218.1	228.7	260.6	4.9	13.9
Nonpersonnel.....	77.8	76.8	99.5	-1.3	29.6
Total System operating expenses	3,071.9	3,289.0	3,427.1	7.1	4.2
Personnel	2,032.2	2,242.4	2,322.8	10.3	3.6
Nonpersonnel	1,039.7	1,046.6	1,104.3	0.7	5.5
Currency ³	488.7	576.0	602.4	17.9	4.6

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

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

2. Excludes extraordinary items and expenses of the Office of Inspector General. For more information, see chapter 2.

3. For information on currency expenses, see appendix C.

15 percent, and Board expenses accounting for the remainder (chart 1.1).

System employment for 2008 is budgeted at 21,199, a decrease of 376 from the 2007 level, largely because of planned staff reductions at the Reserve Banks.

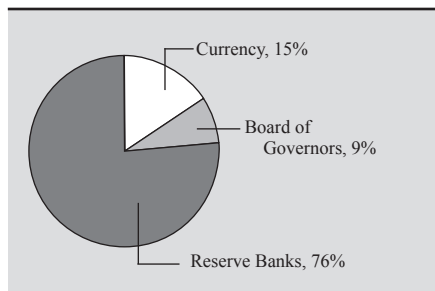
2008 System Budget Initiatives

Reserve Bank initiatives are having a large influence on total 2008 System

operating expenses. The Reserve Banks' budgets are funding increases in several functional areas: monetary policy, public programs, cash services, and supervision and regulation. These increases are being offset by reductions in check operations. The major factors affecting the Banks' 2008 budgets are described in some detail in chapter 3.

Chart 1.1

Distribution of Budgeted Expenses for the Federal Reserve System, 2008



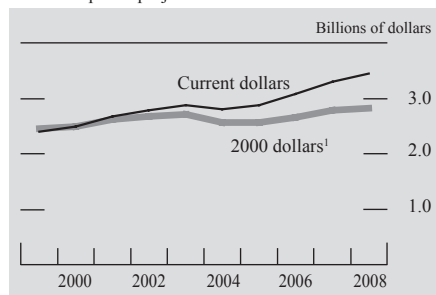
Trends in Expenses and Employment

From the actual 1999 level to the budgeted 2008 amount, the operating expenses of the Federal Reserve System have increased an average of 4.1 percent a year (1.6 percent a year when adjusted for inflation) (chart 1.2). In comparison, nondefense discretionary spending by the federal government has increased an average of 6.2 percent a year (chart 1.3). Over the same ten-year period, Federal Reserve System employment has decreased 3,859 (chart 1.4).

Chart 1.2

Operating Expenses of the
Federal Reserve System, 1999–2008

Excludes special projects



NOTE: For 2008, budgeted.

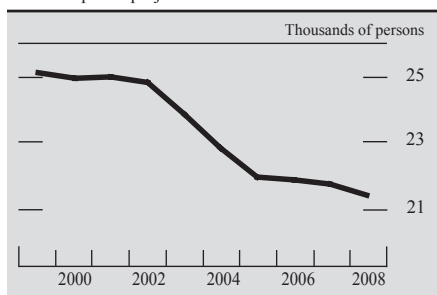
1. Calculated with the GDP price deflator.

The primary factors in spending restraint and the substantial staffing decrease over the past ten years have been the Reserve Banks' restructuring in the check-processing function and improved efficiency in the support and overhead functions. Over the period, costs in the

Chart 1.4

Employment in the
Federal Reserve System, 1999–2008

Includes special projects



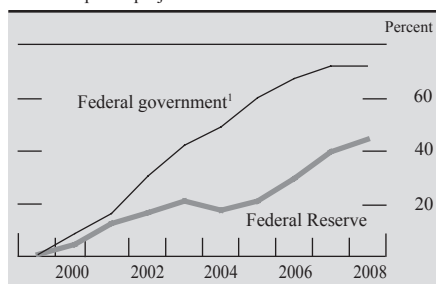
NOTE: For 2008, budgeted.

check area have decreased 0.5 percent and staffing for that function has declined 10.2 percent. Similarly, local support and overhead costs have increased 2.1 percent and staffing for that function has declined 4.0 percent.

Chart 1.3

Cumulative Change in Federal Reserve
System Expenses and Federal Government
Expenses, 1999–2008

Includes special projects



NOTE: For 2008, budgeted.

1. Discretionary spending less expenditures on defense.

Source: *Budget of the United States Government, Fiscal Year 2008: Historical Tables*, Table 8.1. Outlays by Budget Enforcement Act Category, 1962–2012,

2008 Capital Budgets

The 2008 capital budgets for the Reserve Banks and the Board total \$544.8 million—\$534.6 million for the Reserve Banks and Federal Reserve Information Technology (FRIT) and \$10.2 million for the Board. As in previous years, the 2008 capital budgets include funding for projects that support the strategic direction outlined by the individual Reserve Banks, System business leaders, and the Board. These strategic goals focus on investments that improve operational efficiencies and services to bank customers and on the provision of a safe, high-quality work environment. More information on the Board and Reserve Bank capital budgets is given in chapters 2 and 3, respectively. ■

Chapter 2

Board of Governors

The Board of Governors operates under a two-year budget. The budget for 2008–09 was approved in December 2007.

2008–09 Budget

Board of Governors

The Board's approved operating budget for 2008–09 totals \$706.3 million—\$526.6 million (75 percent) for salaries and benefits and the remaining \$179.7 million for goods and services (table 2.1; also see appendix D). The budget reflects \$10.2 million in savings from discontinued activities. The Board's approved capital budget for 2008–09 is \$47.8 million. The funds are to be used primarily to replace or upgrade legacy computing systems, to renovate aging facilities, and to expand office space to accommodate workforce growth.

Office of Inspector General

In keeping with its statutory independence, the Office of Inspector General (OIG) prepares its proposed budget apart from the Board's budget and presents it directly to the Chairman of the Board of Governors for Board members' consideration. The OIG's 2008–09 operating budget is \$12.7 million.

Authorized Positions

To meet increasing workload demands at the Board, the number of authorized positions was increased by 28 for 2008–09, bringing total authorized positions to 2,053 (table 2.2). The number of authorized positions for the OIG was increased by 1, bringing the total to 37.

Table 2.1

Operating Expenses and Capital Expenditures, 2004–2009

Millions of dollars

Operational area or Office of Inspector General	2004–05 (budgeted)	2004–05 (actual)	2006–07 (budgeted)	2006–07 (actual)	2008–09 (budgeted)
Monetary and economic policy	129.5	129.5	143.1	137.9	169.1
Supervisory, regulatory, and legal services	173.2	172.0	206.4	200.5	232.0
Federal Reserve System policy direction	52.6	51.6	55.6	55.9	66.3
Support and security services	171.9	172.1	195.4	198.8	236.9
Extraordinary items	10.0	9.4	9.0	8.3	2.0
Total, Board operations	537.2	534.6	609.5	601.4	706.3
Total, capital	34.0	31.3	31.4	24.7	47.8
Office of Inspector General	8.5	8.1	10.2	9.5	12.7

NOTE: Components may not sum to totals because of rounding.

Table 2.2

Positions Authorized at the Board of Governors, 2004–2009

Operational area or Office of Inspector General	2004–05 (initial)	2004–05 (ending)	2006–07 (initial)	2006–07 (ending)	2008–09 (current) ¹
Monetary and economic policy	459	465	466	467	483
Supervisory, regulatory, and legal services	540	562	567	577	578
Federal Reserve System policy direction	172	172	173	176	179
Support and security services ²	723 ^r	761 ^r	770	805	813
Extraordinary items	...	...	...	...	...
Total, Board operations	1,894^r	1,960^r	1,976	2,025	2,053
Office of Inspector General	31	31	36	36	37

1. As of the end of the first quarter, 2008.

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

r Revised slightly.

... Not applicable.

Areas of Risk

Despite careful planning, future developments could necessitate resources beyond those currently approved. Examples of such developments include

- significant changes in or shocks to the economy or financial system that create a material increase in workload,
- heavier workload required by laws or decisions to expand or modify central bank operations,
- pressure in key areas requiring additional salary or benefit packages in order for the Board to remain competitive, and
- an unforeseen external event requiring additional security or contingency enhancements.

million for capital. Included in the operations budget was \$9.0 million for two extraordinary items—the Survey of Small Business Finances and the Survey of Consumer Finances, both administered by the Board. Actual operating expenses for the two-year period totaled \$601.4 million, or 98.7 percent of the amount budgeted. Personnel-related expenses totaled \$446.8 million, or 99.9 percent of the \$447.3 million budgeted. Expenses for goods and services totaled \$154.6 million, or 95.3 percent of the \$162.2 million budgeted; the underage was due to lower-than-expected expenses for software and contractual professional services. Capital expenditures for 2006–07 totaled \$24.7 million, or 78.7 percent of the \$31.4 million budgeted; expenditures were lower than expected because of changes to the timing of several capital projects.

2006–07 Budget Performance

Board of Governors

The Board's 2006–07 budget provided \$609.5 million for operations and \$31.4

Office of Inspector General

OIG expenses for 2006–07 totaled \$9.5 million, compared with a budgeted amount of \$10.2 million.

Authorized Positions

Over the 2006–07 budget period, the number of authorized positions at the Board increased by 49, bringing the total at the end of 2007 to 2,025. The additional positions were necessitated by increases in staff workload, including work related to the Board’s compliance with the Fed-

eral Information Security Management Act and other federal mandates and its voluntary compliance with the principles of the Sarbanes-Oxley Act. The number of authorized positions at the OIG remained unchanged, at 36, over the two-year period. ■

Chapter 3

Federal Reserve Banks

The 2008 operating budgets of the twelve Federal Reserve Banks total \$3,067.0 million—\$83.5 million, or 2.8 percent, above 2007 expenses (table 3.1; also see appendix E).¹ The increase is being driven by growth in several central bank functional areas, specifically, monetary policy, public programs, supervision and regulation, and cash operations. Largely offsetting the increase are lower costs in the priced-services area associated with the ongoing decline in the volume of paper checks processed.

Nearly half of the Banks' budgeted 2008 operating expenses are expected to be offset by revenue from priced services (29 percent) and reimbursements for ser-

vices provided to the Treasury and other agencies (15 percent).² After taking this and other anticipated income into account, net expenses are expected to increase \$183.4 million, or 12.1 percent, over 2007 expenses. Priced-services revenue is expected to be lower in 2008 than in 2007, mainly because of declining paper check volume; and reimbursable claims are expected to increase only slightly, reflecting an overall effort by the Treasury and the Reserve Banks to contain costs.

Employment at the Reserve Banks, FRIT, and OEB in 2008 is budgeted at 19,255 ANP, a decrease of 280 ANP, or 1.4 percent, from the actual 2007 level

1. Total includes expenses budgeted by Federal Reserve Information Technology (FRIT) and the Office of Employee Benefits (OEB), which are chargeable to the Reserve Banks.

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

Table 3.1

Operating Expenses of the Federal Reserve Banks, Net of Receipts and Claims for Reimbursement, 2007 and 2008

Millions of dollars, except as noted

Item	2007 (actual)	2008 (budgeted)	Change	
			Amount	Percent
Total operating expenses ¹	2,983.5	3,067.0	83.5	2.8
LESS				
Revenue from priced services.....	1,012.3	896.2	-116.0	-11.5
Other income.....	1.4	1.6	0.2	12.7
Claims for reimbursement ²	458.2	474.1	15.8	3.5
EQUALS				
Net operating expenses	1,511.6	1,695.1	183.4	12.1

NOTE: Excludes capital outlays. Includes expenses budgeted by FRIT and OEB, which are chargeable to the Reserve Banks. Components may not sum to totals and may not yield percentages shown because of rounding.

1. Reflects all redistributions for support and allocations for overhead.

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

Table 3.2

Employment at the Federal Reserve Banks, FRIT, and OEB, 2007 and 2008

Average number of personnel, except as noted

Entity	2007 (actual)	2008 (budgeted)	Change	
			Amount	Percent
Reserve Banks.....	18,673	18,366	-307	-1.6
Federal Reserve Information Technology.....	821	844	23	2.8
Office of Employee Benefits.....	41	45	4	9.0
Total	19,535	19,255	-280	-1.4

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

footnote 3 for definition of *average number of personnel*.

(table 3.2).³ The decrease continues a trend that began in the late 1990s and brings the workforce to the lowest level in the past thirty years. The 2008 reduction is due largely to the declining volume of paper checks and to efficiency gains in currency processing.

2007 Budget Performance

Actual Reserve Bank expenses in 2007 totaled \$2,983.5 million—\$30.2 million, or 1.0 percent, more than the \$2,953.3 million budgeted. Staffing totaled 19,535 ANP—293 ANP below the 2007 budgeted level of 19,828 ANP.

The expense overrun was due mainly to greater Systemwide costs in preparation for additional restructuring of check services whereby the number of check-processing sites will be reduced from twenty-two to four by 2011 (costs included \$34.0 million for accrual of severance, equipment impairments, and other expenses). Higher-than-projected demand for electronic check services, with associated higher costs for staffing, printing supplies, and equipment, contrib-

uted \$19.3 million to the overrun. And needed resources for national adjustments and check automation services added \$8.7 million. Partly offsetting the greater costs were lower-than-anticipated expenditures in various other check functions totaling approximately \$13.0 million. The Reserve Banks fully recovered check costs through revenue in 2007.

Expenses for monetary policy and public programs were also over budget, by \$3.4 million, or 1.4 percent. The variance was due to a higher-than-budgeted staffing level and associated compensation.

Partly offsetting the 2007 overrun were lower-than-budgeted expenses in several areas. Expenses for the supervision and regulation function were \$8.0 million, or 1.3 percent, less than the amount budgeted, largely because of staffing under-runs at several Banks. Expenses for local cash operations were \$7.3 million below budget because of lower-than-planned volume, additional recoveries resulting from the new currency recirculation policy, and processing efficiencies.⁴ Expenses for Treasury services were under budget \$2.3 million, or 0.9 percent, largely as a result of the New Treasury Automated Auction Processing System (NTAAPS)

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

4. Under the recirculation policy, depository institutions are charged a fee if they deposit large amounts of fit \$10 and \$20 notes and order notes in the same denomination within the same week.

and Treasury's Collections and Cash Management Modernization (CCMM) initiative.⁵ Lastly, personnel and ongoing operations costs in several support functions, including law enforcement and human resources, were \$0.9 million, or 0.9 percent, below budget.

The underrun of 293 ANP was due to lower-than-budgeted staffing in several areas. Staffing in the cash operations area was 60 ANP under budget, mainly because of a decline in volume attributable to implementation of the fee component of the recirculation policy and to productivity gains. The law enforcement and facilities functions were 45 ANP and 20 ANP, respectively, under budget because of higher-than-planned turnover and a longer-than-expected time to fill vacant positions. Staffing in the check services area was 52 ANP under budget, reflecting a greater-than-planned decline in the volume of paper checks, partly offset by additional staff to support electronic check operations. Staffing for Treasury services was 31 ANP below budget, reflecting the CCMM initiative and a reduction in the volume of services provided. Staffing for the supervision and regulation function was under budget by 26 ANP, mainly because of turnover and longer-than-planned hiring delays, and the Customer Relations and Support office was 13 ANP under budget because of hiring lags and efficiency gains. The overall staffing underrun was partly offset by an increase of 30 ANP to support FRIT projects.

Initiatives Affecting the 2008 Budget

The Reserve Banks' 2008 budgets include funding for several initiatives that will

enhance information security and resiliency and address staffing needs. The budgets also support efforts to modernize and increase efficiency in the cash operations and check services areas.

Central Bank Services

The central bank services area includes monetary policy, public programs, supervision and regulation, and cash operations. For 2008, expenses in this area are budgeted to increase \$137.2 million, or 8.2 percent, over 2007 expenses. The total cost for monetary policy and public programs is increasing \$36.9 million, or 7.3 percent, driven primarily by salary-related costs but also by expenses related to resiliency enhancements in central bank functions. The staffing level is increasing 37 ANP, in part as a result of the full-year effect of staff additions in 2007 and the need for additional personnel to support resiliency efforts.

Expenses for the supervision and regulation function are increasing \$47.2 million, or 8.0 percent, mainly as a result of higher compensation for current staff to address retention issues. The staffing level is increasing by 23 ANP because of the lengthened time frame for filling budgeted positions and a shift in resource allocation across Districts as a result of evolving supervisory responsibilities.

Expenses in cash operations are increasing \$30.2 million, or 7.2 percent, reflecting expenses related to CACHE (Currency and Coin Handling Environment) (formerly FCAP, or Future Cash Automation Project) and to facilities and law enforcement support. The support increases are being partly offset by a decline in direct costs of \$0.4 million, or 0.3 percent.

5. CCMM is a comprehensive, multiyear initiative to streamline, modernize, and improve the services, systems, and processes supporting the Treasury's collections and cash-management

programs. The goal is to improve efficiency and reduce costs to the Treasury, thereby providing a savings to taxpayers.

Treasury Services

The cost of providing services to the Treasury, which is fully reimbursed, is budgeted to increase \$15.0 million, or 3.4 percent. Staffing is budgeted to decrease by 12 ANP. The expense increase is being driven by \$7.6 million in accelerated software amortization and personnel costs resulting from the CCMM initiative.

Check Services

Expenses for providing check services are budgeted to decrease \$82.3 million, or 11.5 percent, in 2008, reflecting the non-recurrence of the costs of restructuring check operations that were accrued in 2007 and the continuing decline in the volume of paper checks processed. The decrease is being partly offset by higher costs related to electronic check operations, including costs associated with the development of the new electronic check software. Staffing for check services is budgeted at 553 ANP below the 2007 level, mainly because of the closure of check sites and the projected continued decline in the volume of paper checks.

Support Services

The cost of providing support services is budgeted to increase \$52.8 million, or 6.2 percent. The increase is being driven mainly by additional costs for building projects (\$16.6 million) and expenses (mainly salary-related) for information technology (\$18.5 million) and law enforcement (\$7.3 million). The staffing level is increasing 85 ANP to support application development and contingency efforts and to bring staffing back to normal levels in facilities and law enforcement after 2007 turnover and hiring delays.

Five-Year Trend in Reserve Bank Expenses

Total operating expenses for the Reserve Banks grew an average of 3.3 percent annually over the five years 2003 through 2007. Growth was greatest in the area of services to the U.S. Treasury.

Central Bank Services

Expenses for central bank services grew an average of 5.5 percent annually over the 2003–2007 period. The increase was mainly in the monetary policy and public programs areas; in those areas, the annual increase averaged 7.5 percent as Banks added resources dedicated to community outreach, promotion of financial literacy, and regional economic research. Efficiency improvements in the cash operations area resulted in average annual growth of 2.9 percent. Expenses for the supervision and regulation function grew an average of 5.3 percent a year, reflecting the addition of resources necessary to implement Basel II and to modify the Federal Reserve's approach to supervising large financial institutions.

Treasury Services

Expenses for providing services to the U.S. Treasury grew on average 7.9 percent annually from 2003 through 2007. Recent efforts by the Treasury to limit expense growth and increase efficiency resulted in modest growth of the 2008 budget over 2007 actual expenses. Growth in the earlier part of the five-year period was driven primarily by the TWAI (Treasury Web Applications Infrastructure) project and in later years by the NTAAPS project.⁶

6. TWAI is a web environment that supports Treasury applications and connects customers and other businesses through the web.

Priced Services

Priced-services expenses declined an average of 2.4 percent annually from 2003 through 2007, mainly as a result of the decline in the volume of paper checks. Commensurate reductions in the size of check operations resulted in an average annual decline in the cost of providing check services of 4.4 percent. Over the five-year period, staffing declined by 1,720 ANP as check operations were consolidated into fewer sites.

2008 Personnel Expenses

Reserve Bank officer and employee salaries and other personnel expenses budgeted for 2008 total \$1,552.8 million, an increase of \$49.2 million, or 3.3 percent, over actual 2007 expenses. The increase is the combined effect of the budgeted salary administration program, partially offset by lower severance expenses for 2008 relative to those associated with check restructuring accrued in 2007. Funding for officer and employee salary administration programs is increasing \$81.0 million, largely because of increases in the base salary programs; merit pools for officers and employees total \$54.5 million, and promotions and market-based salary adjustments total \$19.5 million.⁷ The merit budget reflects weighted-average increases of 4.2 percent and 4.0 percent in base salaries for officers and employees, respectively. The budget for variable-pay programs is increasing \$7.1 million, primarily attributed to Reserve Bank efforts to attract and retain officers and employees who have critical and highly marketable skills.

In addition to the increases for the salary administration programs, the Banks

have budgeted a \$2.7 million increase for retention programs, especially for a program to retain key staff during the multiyear restructuring of check services. Partly offsetting these increases is a \$31.5 million decrease in severance expense due to the payments accrued in 2007 associated with restructuring initiatives primarily in the check services area.

Turnover is projected to increase from 11.5 percent in 2007 to 13.7 percent in 2008, in large part because of the check restructuring initiative. Of the 2,593 ANP projected to leave the Reserve Banks, FRIT, and OEB in 2008, an estimated 31.9 percent will not be replaced, mostly in the check services area.

Risks in the 2008 Budget

Check services continues to be an area for which the Reserve Banks have identified considerable risk. If the budgeted 44 percent decline in the volume of paper checks fails to materialize, the Banks would incur costs for higher-than-planned staffing levels; however, the increased costs would be offset by corresponding revenue. The continued rapid growth of electronic check items could present operational challenges, and if the adoption of FedReceipt is slower than anticipated, the Banks would require additional staffing, equipment, and supplies beyond those budgeted.⁸ Additional funding may be required if there are delays or higher-than-expected costs related to the development of a new version of electronic check software. Plans for the next phase of check restructuring have been announced and include consolidation plans through first quarter 2011 as the System moves toward four full-service check-processing sites.

7. Salary administration includes two categories of expense: base salary programs (merit, promotion, and market-adjustment pools) and variable-pay programs (cash awards and incentives).

8. FedReceipt is a service in which the paying bank agrees to the electronic presentment of checks with accompanying images.

Difficulty projecting currency volume given the recent implementation of the new recirculation policy, the CACHE software development effort, and the high-speed sorting equipment upgrade pose significant risks for the 2008 budget. The volume accounted for in the budget may differ from actual volume, and the cost assumptions may differ from actual costs, depending on how aggressively depository institutions adjust the frequency of their currency deposits to avoid recirculation fees. In addition, significant changes to the CACHE requirements or timeline could adversely affect the budget. Also, continuing delays in the project to upgrade high-speed sorting equipment may adversely affect the Banks' ability to meet productivity targets and to reduce the number of staff.

2008 Capital Plan

The 2008 capital budget for the Reserve Banks and FRIT totals \$534.6 million—\$73.0 million, or 15.8 percent, more than 2007 expenses. The budget funds initiatives to enhance resiliency in central bank functions and increase efficiency in the cash area.

As in previous years, the 2008 capital budget includes funding for projects that support the strategic direction outlined by the individual Reserve Banks and the System. These strategies focus on investments that improve operational efficiencies, enhance services to Bank customers, and ensure a safe and high-quality work environment. In support of these strategies, the 2008 budget identifies seven categories of capital outlays: building projects and facility improvements, payment systems improvements, cash services initiatives, Treasury initiatives, information technology initiatives, secu-

rity enhancements, and miscellaneous acquisitions.

The capital budget includes \$209.2 million for building-related projects and facility improvements. Of this amount, \$81.0 million is related to major projects begun in previous years in Boston, New York, Richmond, Chicago, St. Louis, and Kansas City. Also included is \$20.4 million for facilities-related aspects of the resiliency enhancement project. The remaining outlays in this category will fund building renovation and refurbishment projects as well as miscellaneous facility improvement projects.

Expenses for payment systems improvements, cash services initiatives, and Treasury initiatives account for \$138.3 million in the capital budget. Almost half that amount (\$61.8 million) is budgeted to support CACHE software development and to upgrade cash-processing machines. Also included is \$39.0 million for reimbursable Treasury initiatives in support of the TWAI, NTAAPS, and e-Government projects.

Funding for information technology initiatives accounts for \$106.3 million in the capital budget. (These initiatives do not include the automation components of initiatives in the building projects category or the payment systems improvements category discussed in earlier paragraphs.) Of the information technology initiatives total, FRIT projects and acquisitions account for \$35.5 million and the resiliency project accounts for \$33.9 million. In addition, the capital budget includes funding for local server equipment (\$8.6 million) and software upgrades (\$11.0 million) at the Reserve Banks.

Finally, the capital budget includes \$76.3 million for security enhancements and \$4.4 million for miscellaneous acquisitions of equipment and software not fitting into one of the other categories. ■

Appendixes

Appendix A

Federal Reserve Budget Processes

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

Board of Governors

The Board's budget covers a two-year period. The budget process is as follows:

- Each Board division examines its operating environment and considers whether any adjustments to its mission, priorities, activities, and associated resources might improve the efficiency and effectiveness of the Board's operations. A proposed budget based on Boardwide priorities and planning assumptions is prepared for each division.
- The divisions give their proposed budgets to the Staff Planning Group (SPG), a group composed of senior-level officers from across the Board, which develops a preliminary Boardwide budget. The Board's Committee on Board Affairs (CBA) then reviews the preliminary budget and clarifies outstanding planning issues with the SPG.
- The CBA submits the proposed budget to the Board for its consideration and approval.
- If events warrant any changes to the approved budget, the CBA seeks additional Board approval.

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

Federal Reserve Banks

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

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

Following is a summary of the Reserve Bank budget process:

- The business leaders in each functional area provide guidance to assist the Banks as they develop their budget projections for the upcoming year. The budget information is submitted to Board staff for review.
- Board staff review the Banks' budgets, both individually and in the context of Systemwide issues and the other Banks' plans.
- The Committee on Federal Reserve Bank Affairs is briefed on the Bank budgets.
- The budgets are provided to the members of the Board for final action. ■

Appendix B

Priced Services

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

Annual Pricing Process

To meet the requirement for the full recovery of costs over the long run, the Federal Reserve has developed an annual pricing

process that involves projecting Reserve Bank expenses, volumes, and revenues, as well as the PSAF and net income on clearing balances, for each major service category. Fees for Federal Reserve services must be approved by the product director for the respective service, by the Reserve Banks' Financial Services Policy Committee (FSPC), and ultimately by the Board of Governors.¹

The cost of float is projected by applying the federal funds rate to the estimated level of float to be generated in the coming year. The PSAF return on equity is calculated by applying an equity financing rate, based on a simple capital asset pricing model using data from the equity market as a whole, to the level of priced-services equity that is imputed to finance the assets the Federal Reserve expects to use in providing priced services in the coming year. Estimates of income taxes are based on the tax rates derived from financial data for the fifty largest U.S. bank holding companies, based on deposit balances.

The other components of the PSAF are derived from the budgets of the Reserve Banks and the Board: the imputed sales tax (based on budgeted outlays for materials, supplies, and capital); the imputed assessment for insurance by the Federal Deposit Insurance Corporation (based on expected clearing balances and amounts deferred to depository institutions for items deposited for collection with the Reserve Banks); and the portion of the expenses of the Board of Governors

Table B.1

Revenue from Priced Services, 2006–2008

Millions of dollars

Service	2006 (actual)	2007 (actual)	2008 (budgeted)
Funds transfers and net settlement	72.3	74.5	72.9
Automated clearinghouse	91.4	102.0	99.1
Commercial checks....	845.7	812.0	700.7
Book-entry securities transfers.....	21.9	23.9	23.6
Total.....	1,031.2	1,012.3	896.2

NOTE: Components may not sum to totals because of rounding.

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

directly related to providing priced services.

Investment income is imputed and netted with related direct costs associated with clearing balances to estimate net income on clearing balances. ■

Appendix C

Currency Budget

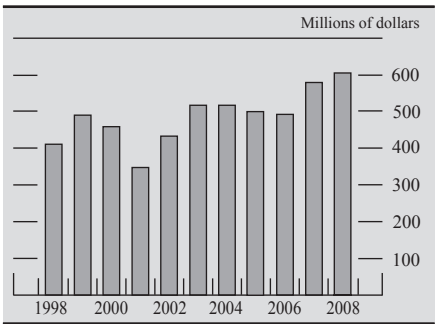
Federal Reserve Banks issue new and fit currency (Federal Reserve notes) to the public through depository institutions and destroy currency already in circulation as it becomes unfit or when a redesigned note is issued. Each year, under authority delegated by the Board of Governors, the director of the Board’s Division of Reserve Bank Operations and Payment Systems orders new currency from the U.S. Department of the Treasury’s Bureau of Engraving and Printing (BEP). Upon reviewing the order, the BEP establishes rates for printing new currency, which the Board staff uses to prepare a proposed annual budget for supplying currency. Once the currency budget has been approved, each Reserve Bank is assessed a share of the budgeted amount through an accounting procedure.

Actual 2007 expenses for supplying currency were under budgeted 2007 expenses by \$21.8 million, or 3.6 percent, primarily because of lower-than-expected printing and transportation costs.¹ The

1. The budgeted amounts reported in this appendix are from the Board’s 2008 official currency budget, approved in December 2007. The

Chart C.1

Federal Reserve Costs for Supplying Currency, 1998–2008



NOTE: For 2008, budgeted.

2008 currency budget of \$602.4 million is 4.6 percent higher than actual 2007 expenses (chart C.1, table C.1). Currency printing costs represent 96 percent of the currency budget; expenses for currency transportation and counterfeit-deterrence research, and reimbursement to the U.S. Treasury’s Office of Compliance, account for the remaining 4 percent.

actual amounts reported are updates of the estimated amounts reported in that budget.

Table C.1

Federal Reserve Costs for Supplying Currency, 2007 and 2008

Thousands of dollars, except as noted

Item	2007 (actual)	2008 (budgeted)	Percent change
Printing of new currency.....	554,855	578,461	4.3
Currency transportation	13,727	15,910	15.9
Counterfeit-deterrence research	3,390	3,730	10.0
Reimbursement to the U.S. Department of the Treasury Office of Compliance	4,032	4,271	5.9
Total	576,005	602,372	4.6

NOTE: Does not include costs for uncut currency not intended for circulation. Components may not sum to totals because of rounding.

Table C.2

Projected Federal Reserve Costs for Printing New Currency, by Type of Note, 2008

Type of note	Number of notes (millions)	Percent of total notes	Cost per thousand notes (dollars)	Total cost (thousands of dollars)
Unthreaded (\$1, \$2)	3,667.9	44.2	47.07	172,648
Series 1996 (\$100)	854.4	10.3	79.11	67,592
Series 2004				
\$5	1,369.6	16.5	74.20	101,624
\$10	774.4	9.3	76.50	59,242
\$20 and \$50	820.1	9.9	91.63	75,147
\$100 ^p	817.7	9.8	125.00	102,208
Volume-weighted average cost	...	...	69.66	...
Total	8,304.1	100.0	...	578,461

... Not applicable.

p Preliminary.

Printing of Federal Reserve Notes

Printing of the currency ordered for 2008 is budgeted at \$578.5 million, 4.3 percent more than the cost of printing the 2007 order. When weighted by volumes ordered, the average billing rate charged by the BEP is increasing 10 percent, from \$63.33 per thousand notes in 2007 to \$69.66 per thousand notes in 2008 (table C.2); excluding printing of the Series 2004 \$100 note (for which the billing rate is expected to be considerably higher), the average billing rate is remaining much the same, at \$63.62 per thousand notes.

The 2008 printing budget is higher than actual 2007 expenses because the 2008 order includes a larger share of more-expensive Series 2004 notes than did the 2007 order—46 percent, compared with 32 percent. The increase in share reflects production of the Series 2004 \$5 note, which the Reserve Banks began issuing in March 2008, and expected production of the Series 2004 \$100 note. BEP's final billing rate for the \$100 note, and the production timeline, will not be known until the final design is completed, but the rate is expected to be considerably higher than that for other notes, largely

because of security enhancements, including new features intended to improve the public's ability to authenticate the notes.

Currency Transportation

The 2008 currency transportation budget, which totals \$15.9 million, includes the costs of shipping new currency from the Bureau of Engraving and Printing to the Reserve Banks (\$10.8 million), shipping fit and unprocessed currency within the System (\$5.1 million), and returning currency pallets to the BEP (\$43 thousand). The 2008 budget for shipping new currency is 23.7 percent greater than actual 2007 expenses—4.9 percent due to higher contracted transportation rates and 18.8 percent due to anticipated shipping of new \$100 notes. The budget for intra-System shipments is 2.6 percent greater than actual 2007 expenses; included is a 20 percent (\$613 thousand) increase to cover the additional shipments of unprocessed currency between Reserve Banks expected in 2008 to help manage System inventories during a planned major upgrade of currency-processing machines.

Counterfeit-Deterrence Research

The 2008 budget for counterfeit-deterrence research is \$3.7 million. Most of that amount (99 percent) is the Board's contribution to the work of the Central Bank Counterfeit Deterrence Group (CBCDG), an organization of nearly thirty central banks operating under the auspices of the G-10 central bank governors with the purpose of combating digital counterfeiting. The 2008 budgeted contribution to CBCDG is 9.9 percent more than 2007 expenses. The remainder of the counterfeit-deterrence research budget is for support of the work of the Reprographic Research Center, a state-of-the-art facility hosted by the National Bank of Denmark that the twelve member central banks use for

adversarial testing of banknote designs and counterfeit-deterrence features.

Reimbursement to the Treasury's Office of Compliance

The 2008 budget for reimbursement of the U.S. Department of the Treasury for currency-related work by the Office of Compliance is \$4.3 million. That office develops standards for the Reserve Banks concerning canceling and destroying unfit currency and accounting for notes, and then reviews the Bank's currency operations for compliance with those standards. In addition, the Office of Compliance processes claims for the redemption of damaged or mutilated currency. ■

Appendix D

Expenses and Employment at the Board of Governors

Table D.1

Operating Expenses of the Board of Governors, by Division, Office, or Special Account,
2004–2009

Millions of dollars

Division, office, or special account	2004–05 (budgeted)	2004–05 (actual)	2006–07 (budgeted)	2006–07 (actual)	2008–09 (budgeted)
Board Members.....	25.0	23.6	26.4	24.7	30.2
Secretary	11.5	11.1	12.4	12.3	14.6
Research and Statistics.....	76.0	76.4	82.7	81.2	98.7
International Finance	28.7	28.5	32.0	29.1	36.7
Monetary Affairs	24.9	24.6	28.4	27.6	33.8
Banking Supervision and Regulation.....	86.0	87.6	99.4	96.8	106.0
Consumer and Community Affairs	25.0	24.2	29.5	30.8	38.2
Legal	23.8	22.6	26.1	23.1	29.4
Reserve Bank Operations and Payment Systems	38.3	37.7	51.4	49.8	58.5
Staff Director for Management.....	16.2	16.8	16.8	18.9	21.6
Information Technology.....	82.5	81.6	91.2	89.5	105.8
Management Division.....	109.8	109.4	122.2	127.4	148.4
IRM income account	–38.0	–38.0	–39.8	–39.5	–44.4
Residual retirement	9.6	7.9	9.8	13.5	13.3
Special projects.....	8.1	11.1	12.0	7.9	13.7
Extraordinary items.....	10.0	9.4	9.0	8.3	2.0
Total, Board operations	537.2	534.6	609.5	601.4	706.3
Office of Inspector General.....	8.5	8.1	10.2	9.5	12.7

NOTE: Components may not sum to totals because of rounding.

Table D.2

Operating Expenses of the Board of Governors, by Account Classification, 2004–2009

Millions of dollars

Account classification	2004–05 (budgeted)	2004–05 (actual)	2006–07 (budgeted)	2006–07 (actual)	2008–09 (budgeted)
<i>Personnel services</i>					
Salaries.....	333.7	332.0	380.2	372.7	441.4
Retirement.....	32.6	33.5	35.7	38.8	48.3
Insurance.....	29.3	27.8	31.4	35.3	36.8
Subtotal.....	395.6	393.3	447.3	446.8	526.6
<i>Goods and services</i>					
Travel.....	14.9	14.7	15.7	17.2	18.5
Postage and shipping.....	1.0	0.9	1.0	1.0	1.1
Telecommunications.....	10.0	10.1	10.8	9.8	11.6
Printing and binding.....	2.9	2.5	2.7	2.6	2.8
Publications.....	1.7	1.5	1.2	0.9	1.1
Stationery and supplies.....	2.4	2.8	2.3	2.5	2.3
Software.....	14.1	12.3	14.6	13.3	15.8
Furniture and equipment.....	7.7	7.7	7.5	8.1	8.7
Rentals.....	0.7	0.6	1.2	1.1	4.9
Books and subscriptions.....	2.0	1.7	2.0	1.7	2.2
Utilities.....	6.5	7.2	7.8	8.3	8.5
Building repairs and alterations.....	5.8	5.2	4.6	4.0	4.8
Furniture repairs and maintenance.....	2.3	2.2	2.5	2.6	2.7
Contingency Processing Center expenses.....	1.3	1.7	1.7	2.2	2.3
Contractual professional services.....	51.2 ^r	49.4 ^r	62.8	59.8	67.9
Tuition/registration and membership fees.....	4.4	4.5	4.8	5.2	6.5
Subsidies and contributions.....	1.3	1.3	1.3	1.4	1.2
Depreciation.....	24.8	25.4	28.8	26.6	29.8
All other ¹	-13.2	-10.3	-11.4	-13.7	-13.1
Subtotal.....	141.8 ^r	141.3 ^r	162.2	154.6	179.7
Total, Board operations.....	537.2^r	534.6^r	609.5	601.4	706.3
Office of Inspector General.....	8.5	8.1	10.2	9.5	12.7

NOTE: Components may not sum to totals because of rounding.

1. *All other* includes, among other items, Accounts, Risk and Credit (ARC) System expenses and income; IRM income and user charges; and interest expenses.

r Revised.

Table D.3

Positions Authorized at the Board of Governors, by Division, Office, or Special Account, 2004–2009

Division, office, or special account	2004–05 (initial)	2004–05 (ending)	2006–07 (initial)	2006–07 (ending)	2008–09 (current ¹)
Board Members.....	78	77	78	80	81
Secretary	50	50	50	50	50
Research and Statistics.....	275	275	275	275	287
International Finance	116	116	116	114	115
Monetary Affairs	68	74	75	78	81
Banking Supervision and Regulation.....	238	254	254	258	255
Consumer and Community Affairs	83	89	94	101	105
Legal	80	80	80	80	80
Reserve Bank Operations and Payment Systems	139	139	139	138	138
Staff Director for Management.....	44	45	45	46	48
Information Technology ²	289	301	301	318	326
Management Division ³	433 ^r	460 ^r	469	487	487
Special projects	1	0	0	0	0
Total, Board operations	1,894^r	1,960^r	1,976	2,025	2,053
Office of Inspector General.....	31	31	36	36	37

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

1. As of the end of the first quarter, 2008.

2. Includes positions that support the Federal Financial Institutions Examination Council for processing data col-

lected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

3. Excludes summer interns.

r Revised slightly.

Appendix E

Expenses and Employment at the Federal Reserve Banks

Table E.1

Operating Expenses of the Federal Reserve Banks, by District, 2007 and 2008

Thousands of dollars, except as noted

District	2007 (budgeted)	2007 (actual)	2008 (budgeted)	Percent change	
				2007 actual compared with 2007 budgeted	2008 budgeted compared with 2007 actual
Boston	151,625	161,154	157,796	6.3	-2.1
New York	573,662	576,068	599,736	0.4	4.1
Philadelphia	147,732	148,124	157,028	0.3	6.0
Cleveland	208,644	218,339	218,332	4.6	0.0
Richmond	231,262	237,433	245,270	2.7	3.3
Atlanta	337,336	318,581	355,650	-5.6	11.6
Chicago	274,162	288,812	277,736	5.3	-3.8
St. Louis	229,623	224,648	227,877	-2.2	1.4
Minneapolis	159,786	161,582	168,218	1.1	4.1
Kansas City	173,175	179,930	181,033	3.9	0.6
Dallas	186,662	193,663	190,820	3.8	-1.5
San Francisco	279,662	275,156	287,474	-1.6	4.5
Total	2,953,331	2,983,492	3,066,970	1.0	2.8

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

for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

Table E.2

Employment at the Federal Reserve Banks, by District, and at FRIT and OEB, 2007 and 2008

Average number of personnel

District	2007 (budgeted)	2007 (actual)	2008 (budgeted)	Change	
				2007 actual compared with 2007 budgeted	2008 budgeted compared with 2007 actual
Boston	993	988	1,000	-5	13
New York	2,868	2,839	2,764	-29	-75
Philadelphia.....	1,092	1,071	1,063	-21	-8
Cleveland	1,604	1,574	1,581	-29	7
Richmond.....	1,854	1,830	1,827	-24	-4
Atlanta.....	2,042	1,986	1,939	-56	-47
Chicago.....	1,544	1,501	1,457	-42	-44
St. Louis.....	1,124	1,086	1,074	-38	-13
Minneapolis.....	1,273	1,251	1,235	-22	-17
Kansas City	1,386	1,371	1,330	-14	-41
Dallas	1,331	1,339	1,316	8	-23
San Francisco	1,879	1,836	1,781	-43	-55
Total, all Districts	18,990	18,673	18,366	-317	-307
Federal Reserve Information					
Technology.....	793	821	844	28	23
Office of Employee Benefits.....	45	41	45	-4	4
Total.....	19,828	19,535	19,255	-293	-280

NOTE: The term *average number of personnel* (ANP) describes levels and changes in employment. ANP is the average number of employees in terms of full-time positions for the period. For instance, a full-time employee who starts

work on July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start on January 1 count as 1 ANP. Components may not sum to totals and may not yield variances shown because of rounding.

Table E.3

Operating Expenses of the Federal Reserve Banks, FRIT, and OEB, by Operational Area, 2007 and 2008

Thousands of dollars, except as noted

Operational area	2007 (budgeted)	2007 (actual)	2008 (budgeted)	Percent change	
				2007 actual compared with 2007 budgeted	2008 budgeted compared with 2007 actual
Monetary and economic policy.....	343,606	351,221	390,209	2.2	11.1
Services to the U.S. Treasury and other government agencies	442,689	434,578	449,530	-1.8	3.4
Services to financial institutions and the public	738,599	724,909	775,855	-1.9	7.0
Supervision and regulation	601,173	593,222	640,450	-1.3	8.0
Fee-based services to financial institutions.....	827,264	879,561	810,926	6.3	-7.8
Total	2,953,331	2,983,492	3,066,970	1.0	2.8

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

for support and allocations for overhead. Components may not sum to totals and may not yield percentages shown because of rounding.

Table E.4

Employment at the Federal Reserve Banks, FRIT, and OEB, by Operational Area, 2007 and 2008

Average number of personnel

Operational area	2007 (budgeted)	2007 (actual)	2008 (budgeted)	Change	
				2007 actual compared with 2007 budgeted	2008 budgeted compared with 2007 actual
Monetary and economic policy.....	928	934	1,018	5	84
Services to the U.S. Treasury and other government agencies ..	1,289	1,258	1,246	-32	-12
Services to financial institutions and the public	2,707	2,615	2,542	-92	-72
Supervision and regulation	2,676	2,656	2,673	-20	16
Fee-based services to financial institutions.....	2,747	2,692	2,155	-55	-537
Support and overhead	9,481	9,381	9,621	-100	241
Total	19,828	19,535	19,255	-293	-280

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

Table E.5

Expenses of the Federal Reserve Banks for Salaries of Officers and Employees, by District, 2007 and 2008

Thousands of dollars, except as noted

District	2007 (budgeted)	2007 (actual)	2008 (budgeted)	Percent change	
				2007 actual compared with 2007 budgeted	2008 budgeted compared with 2007 actual
Boston	75,678	74,910	81,081	-1.0	8.2
New York	278,439	272,673	290,068	-2.1	6.4
Philadelphia.....	66,541	65,974	70,018	-0.9	6.1
Cleveland	87,032	85,598	90,268	-1.6	5.5
Richmond.....	115,453	112,490	119,432	-2.6	6.2
Atlanta.....	126,839	125,943	130,154	-0.7	3.3
Chicago	107,566	103,010	108,595	-4.2	5.4
St. Louis.....	71,170	69,893	73,310	-1.8	4.9
Minneapolis.....	72,400	71,135	74,819	-1.7	5.2
Kansas City	87,287	86,097	89,354	-1.4	3.8
Dallas	78,483	78,185	81,949	-0.4	4.8
San Francisco	139,734	135,843	142,469	-2.8	4.9
Total, all Districts	1,306,621	1,281,751	1,351,515	-1.9	5.4
Federal Reserve Information Technology.....	71,611	70,218	77,844	-1.9	10.9
Office of Employee Benefits.....	4,927	4,688	5,028	-4.9	7.3
Total	1,383,159	1,356,657	1,434,387	-1.9	5.7

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

Table E.6

Capital Outlays of the Federal Reserve Banks, by District, and of FRIT and OEB, 2007 and 2008

Thousands of dollars, except as noted

District	2007 (budgeted)	2007 (actual)	2008 (budgeted)	Percent change	
				2007 actual compared with 2007 budgeted	2008 budgeted compared with 2007 actual
Boston	18,334	17,440	28,439	-4.9	63.1
New York	77,456	52,047	138,452	-32.8	166.0
Philadelphia.....	23,361	16,433	22,615	-29.7	37.6
Cleveland	24,161	21,777	24,817	-9.9	14.0
Richmond.....	59,717	26,910	69,707	-54.9	159.0
Atlanta.....	32,928	10,981	22,889	-66.7	108.5
Chicago	20,633	13,154	23,768	-36.2	80.7
St. Louis.....	43,559	40,908	33,298	-6.1	-18.6
Minneapolis.....	5,131	3,533	7,008	-31.1	98.4
Kansas City	150,439	140,705	16,193	-6.5	-88.5
Dallas	17,318	8,889	25,776	-48.7	190.0
San Francisco.....	49,669	53,056	56,691	6.8	6.9
Total, all Districts	522,708	405,833	469,655	-22.4	15.7
Federal Reserve Information					
Technology.....	68,115	55,152	64,908	-19.0	17.7
Office of Employee Benefits.....	800	653	0	-18.4	...
Total.....	591,623	461,637	534,562	-22.0	15.8

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

... Not applicable.

Table E.7

Capital Outlays of the Federal Reserve Banks, FRIT, and OEB, by Asset Classification, 2007 and 2008

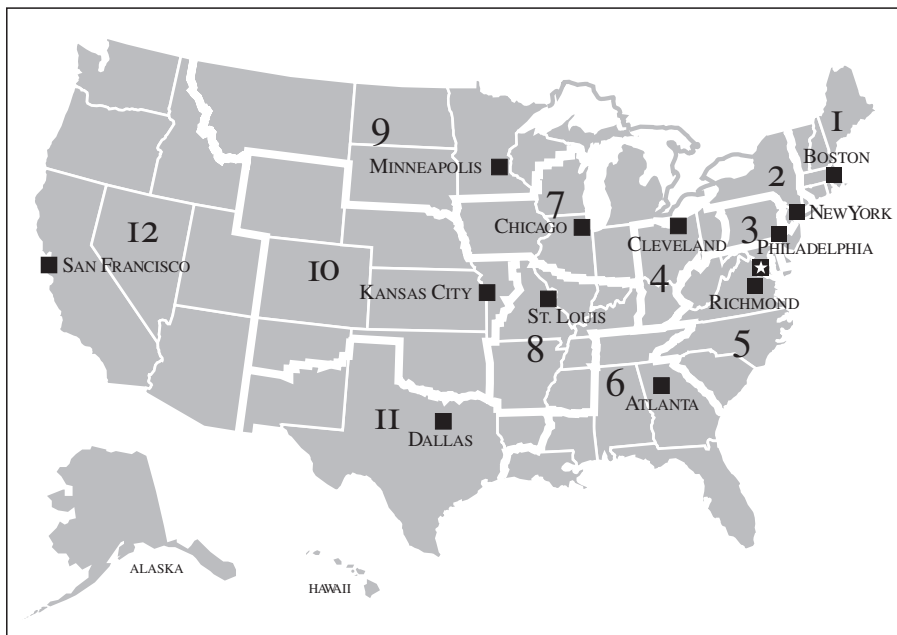
Thousands of dollars, except as noted

Asset classification	2007 (budgeted)	2007 (actual)	2008 (budgeted)	Percent change	
				2007 actual compared with 2007 budgeted	2008 budgeted compared with 2007 actual
Equipment	138,623	101,696	153,252	-26.6	50.7
Furniture, furnishings, and fixtures.....	27,912	18,440	24,725	-33.9	34.1
Land and other real estate	11,282	15,046	9,197	33.4	-38.9
Building.....	274,662	215,935	203,431	-21.4	-5.8
Building machinery and equipment.....	58,199	38,527	41,134	-33.8	6.8
Leasehold improvements	1,772	2,111	370	19.2	-82.5
Software	78,013	69,131	101,761	-11.4	47.2
Art	1,161	752	692	-35.2	-8.0
Total	591,623	461,637	534,562	-22.0	15.8

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

*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.

Commonwealths and territories are served as follows: the New York

Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The maps show the boundaries within the System as of year-end 2007.

