

Chapter 2

Board of Governors

The 1990 budget of the Board of Governors is \$103.2 million for its four operational areas and \$1.7 million for the Office of Inspector General.¹ The Board's total expenses, \$104.9 million, are 6.1 percent of the total for the Federal Reserve System. The Board authorized 1,555 positions for its operational areas in 1990, 1 fewer than in 1989 despite a significant increase in the number of positions for the supervision and regulation area and the growing workload caused by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; the Board authorized 15 positions in the Office of Inspector General (tables 2.1 and 2.2).

The 1990 budget for the Office of Inspector General (OIG) was handled and approved separately from the rest of the Board's budget this year in more formal recognition of the independence of the office. The 1988 and 1989 expenses and position complement of the OIG are shown separately in the tables to permit consistent comparisons. The 1990 budgeted expenses and staffing for the OIG, considerably higher than for the previous year, reflect an expansion in the scope and depth of coverage it gives to Board operations.

Operational Areas

For 1990 the Board of Governors has budgeted operating expenses of \$103.2 million for its four operational areas, an

increase of \$7.6 million, or 7.9 percent, over estimated expenses for 1989. The growth in Board expenses between 1989 and 1990, greater than in past years, in the main is attributable to a new compensation system and the Board's responsibilities under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). If no responsibilities are added to those carried in 1990, the 1991 budget should return to a lower growth path.

Almost one-half of the budget increase is due to the one-time adjustment in compensation in 1990, the first full year of the new employee compensation program. The adjustment, to raise salaries in certain job families judged to be below competitive levels, will not be needed in the future because annual salary surveys will be used to keep salaries close to the measured market. The program is designed to keep salaries in line with those paid by competing employers and to better attract and retain a high-quality staff.

Through FIRREA, the Congress has given new responsibilities to the Federal Reserve to help resolve the savings and loan failures and to address underlying problems of the industry. These responsibilities are the other major source of budget growth in 1990 and extend throughout much of the Board: added work will be required from the litigation and enforcement staff of the Legal Division, the financial analysis staff of the Division of Banking Supervision and Regulation, the research staff of the Division of Research and Statistics, and the accounting staff of the Office of the Controller. The act also calls on the Federal Reserve to provide staff support

1. Not reported in the text, tables, and charts of this chapter are budget reductions approved by the Board on January 11, 1990, in conjunction with Gramm-Rudman-Hollings; see appendix G.

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requested by the Oversight Board of the Resolution Trust Corporation.

The 1990 budget includes continued expansion of the National Information Center. The Federal Reserve began the center in 1988, charging it to create a central, high-quality database on the structure and finances of financial institutions. Such a database would improve the ability of the System to monitor the safety and soundness of institutions, process their applications, and maintain the accuracy of published data series. The growth

of interstate banking, the acquisitions of failed financial institutions, and the growing complexity of relationships among institutions make a central data center extremely important to the System.

In mid-1989 the Board transferred responsibility for managing the Contingency Processing Center (CPC) to the Federal Reserve Bank of Richmond. The CPC, located between Washington and Richmond in Culpeper, Virginia, is the relocation facility for the Board and the backup data processing facility for the

Table 2.1

Expenses of the Board of Governors for Operational Areas and Office of Inspector General, 1988-90¹

Thousands of dollars, except as noted

Type of expense	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Monetary and economic policy	47,620	51,209	53,652	7.5	4.8
Supervision and regulation	21,743	23,142	26,935	6.4	16.4
Services to financial institutions and the public	2,574	2,373	2,722	-7.8	14.7
System policy direction and oversight	17,988	18,894	19,860	5.0	5.1
Total, operational areas	89,925	95,618	103,169	6.3	7.9
Office of Inspector General	580	730	1,684	25.9	130.7
Total	90,505	96,348	104,853	6.5	8.8

1. Operating expenses reflect all allocations for support and overhead. They exclude capital outlays. Services to the U.S. Treasury and other government agencies is an

operational area unique to the Reserve Banks and is not shown here; see chaps. 1 and 3.

Table 2.2

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1988-90

Type of expense	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Monetary and economic policy	397	398	398	.3	0
Supervision and regulation	264	267	277	1.1	3.7
Services to financial institutions and the public	22	20	20	-9.1	0
System policy direction and oversight	148	152	151	2.7	-7
Support and overhead	734	719	709	-2.0	-1.4
Total	1,565	1,556	1,555	-.6	-.1
Office of Inspector General	8	9	15	12.5	66.7
Total	1,573	1,565	1,570	-.5	.3

System. Transferring the management function is intended to meet the expanding requirements of the Reserve Banks for backup facilities and support. The shift in use of the CPC partially offset the increase in Board expenses between 1989 and 1990; it also eliminated ten CPC positions from the Board's 1989 budget and eight positions from its 1990 budget.

The following sections analyze the operating budgets for the Board's four operational areas and Office of Inspector General and discuss trends in expenses and employment. Appendix A describes the operational areas of the Board and the Banks, appendix B discusses the Board's budgeting process, and appendix C presents, among other topics, the Board's capital outlays.

The Budget by Operational Area

The Board's activities fall into four broadly defined operational areas: monetary and economic policy, supervision and regulation of financial institutions, services to financial institutions and the public, and System policy direction and oversight (see also chapter 1 and appendix A).

Table 2.1 shows the operating expenses, and table 2.2 shows the number of authorized positions, for each of the operational areas for each of the years 1988-90. The costs include those for support and overhead, allocated to each operational area according to that area's proportion of total direct expenses. The tables also show the expenses and employment of the Office of Inspector General for the period, which are discussed in turn.

Monetary and Economic Policy

Under its monetary and economic policy function, the Board monitors and analyzes developments in the money and

credit markets, sets reserve requirements, approves changes in the discount rate, and otherwise manages the nation's monetary policy.

This function is expected to cost \$53.7 million in 1990, an increase of \$2.4 million, or 4.8 percent, over 1989. In addition to maintaining the quality of economic analysis and forecasts, the budget includes significant funding for FIRREA, the National Information Center, and processing the data for the Survey of Consumer Finances. The growth of expenses in this operational area is held down because earlier investments in distributed processing systems have reduced the area's payment for central automation services. Also, 1989 expenses for the Survey of Consumer Finances will not recur.

FIRREA will require substantial resources from the monetary and economic policy area on issues relating to deposit insurance, for monitoring the savings and loan industry, and for support to the Oversight Board of the Resolution Trust Corporation.

The staff made progress in 1988 and 1989 to define the requirements of the National Information Center, discussed above, and to assemble information. The 1990 budget supports further efforts in this important area.

The Survey of Consumer Finances is a major update of data, last obtained in 1983, on the income, assets, debts, pensions, and employment for U.S. households and their use of financial services. The 1990 costs for analyzing the survey data are less than the 1989 cost of gathering the data.

Supervision and Regulation

Supervision of financial institutions includes reviews of examination and inspection reports on state member banks prepared by the Reserve Banks, special

studies related to international applications, direction of enforcement actions, and regulation of trust activities. Regulation includes the formulation of regulations; the oversight of mergers, foreign banking activities, and compliance with consumer regulations; and the regulation of securities credit.

The \$26.9 million budget for supervision and regulation is \$3.8 million, or 16.4 percent, greater than estimated expenses for 1989. The new compensation program, discussed above, had a heavy effect on the costs of this operational area because of its large concentration of financial analysts and attorneys, job families whose salaries are rising more rapidly than at other areas of the Board. The ten positions added in this area are related to FIRREA and underlying problems in the financial industry. Reductions in the staffing of Boardwide support and overhead functions prevented a net increase in the number of positions at the Board. Additional resources may still be required in 1990 to meet the full requirements of FIRREA and the situation in the financial industry.

Improvements in the information systems for supervision and regulation include work on the National Information Center, replacement of the various office automation systems in the Legal Division with a single system, and the installation of more and faster microcomputers and a local area network in the Division of Banking Supervision and Regulation.

Services to Financial Institutions and the Public

The \$2.7 million budgeted for services to financial institutions and the public is \$349,000, or 14.7 percent, higher than 1989 estimated expenses. This operational area is composed almost entirely of the System's payments function. The

1990 budget includes funds to meet growing travel requirements and training expenses of the staff and to support the automation of currency operations. The automation project, begun in 1988, has produced major savings in the System's currency expenses by minimizing the number of shipments and reducing the overall volume of currency needed.

The payments risk program, established in mid-1989, is a major source of added costs this year, in part because 1990 is its first full year of operation. The program coordinates the analysis of risks associated with national and international payment and settlement systems.

System Policy Direction and Oversight

The \$19.9 million budget for System policy direction and oversight is \$1.0 million, or 5.1 percent, more than estimated 1989 expenses. With no major increases in responsibilities, no increase in staffing, no automation initiatives, and no major salary adjustments required by the new compensation system, this area shows a cost increase for 1990 that is below the Boardwide average. The comparison with last year excludes the budget for the OIG, which formerly was part of this area and is now approved and displayed separately.

Ten-Year Trend

Operating expenses for the Board's four operational areas have grown from \$59.8 million in 1980 to \$103.2 million budgeted for 1990, an average increase of 5.6 percent per year in current dollars and 1.5 percent per year in 1980 dollars (chart 2.1). During this period, the costs for personnel have increased at an annual average of 5.3 percent in current dollars and 1.1 percent in 1980 dollars (chart 2.2); and expenses for goods and ser-

VICES have risen an annual average of 6.8 percent in current dollars and 2.6 percent in 1980 dollars (chart 2.3). The markedly faster pace for goods and services relative to personnel reflects the substantial investment in automation during the period and successful efforts to limit the number of positions at the Board.

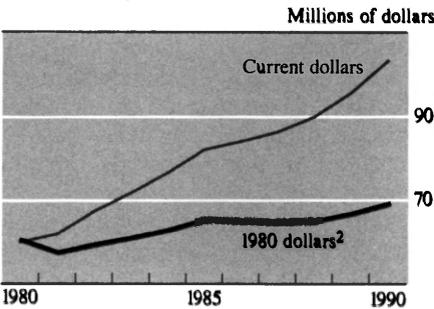
The size of the current-dollar increases in expenses has varied greatly from year to year (chart 2.4); periods of major

growth in the workload required additional resources, which were then scaled back as the new work was assimilated, productivity-enhancing technology was acquired, and lower-priority tasks discontinued. This variation is demonstrated by the changes in staffing during the ten-year period (chart 2.5).

The following discussion breaks the ten-year period into three segments: 1980-85 when resources, particularly for data collection and storage, were added to meet the requirements of major legislation; 1986-88, when adjustments by the Board reduced the number of positions added during the previous period; and 1989-90, when the year-to-year decreases associated with the position reductions of the earlier period ended, and the costs of the new compensation program began.

Chart 2.1

Operating Expenses of the Board of Governors, 1980-90¹



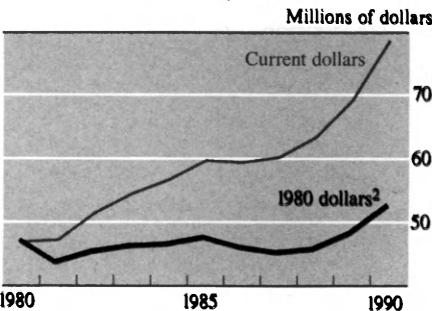
1. Excludes the Office of Inspector General. For 1989 estimate; for 1990, budget
2. Calculated with the GNP price deflator.

1980-85

Expenses rose sharply between 1980 and 1985, although a reduction in 1981 of \$3.7 million for retiree cost-of-living adjustments negated a portion of the increase. Federal pay increases during

Chart 2.2

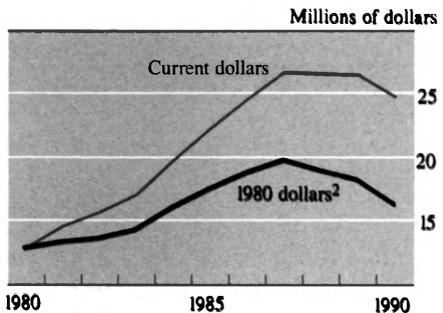
Expenses for Personnel Services at the Board of Governors, 1980-90¹



1. Excludes the Office of Inspector General. For 1989, estimate; for 1990, budget.
2. Calculated with the GNP price deflator.

Chart 2.3

Expenses for Goods and Services at the Board of Governors, 1980-90¹



1. Excludes the Office of Inspector General. For 1989, estimate; for 1990, budget.
2. Calculated with the GNP price deflator.

these years, although markedly below those in the private sector, were high compared with the federal increases approved later in the decade. More significant, however, were the costs of resources added to meet the requirements of new legislation. The average annual increase in expenses for this period, 1.7 percent in 1980 dollars, derived mainly from the Monetary Control Act (MCA).

Under the MCA, the number of institutions directly or indirectly reporting financial data to the Federal Reserve tripled, from about 14,000 to about 45,000, and the number of items all institutions were required to report grew substantially. This surge in the volume of work handled at the Federal Reserve required a new mainframe computer and large additions to the staff for data processing and for monetary policy. The requirement of the MCA that the Federal Reserve price many services it had previously provided without explicit charge and expand their availability also imposed start-up costs. Deregulation and other changes in the banking industry arising from the Financial Institutions Regulatory and Interest Rate Control Act

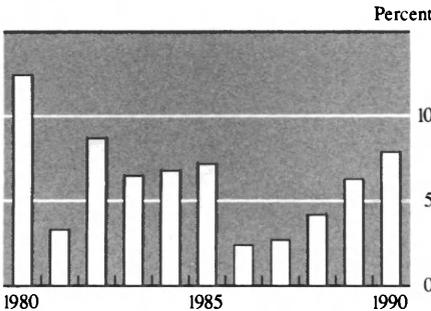
required additional supervisory staff. To meet all of these requirements the number of positions grew from 1,575 in 1980 to 1,653 in 1984, an increase of almost 5 percent. Employment grew a like percentage, from 1,516 to 1,588. Although the number of positions and employees began a substantial decline in 1985 (see the discussion of the Program Improvement Project in the next section), expenses did not begin to reflect the change until 1986.

1986-88

In mid-1984 the Board established the Program Improvement Project (PIP) to reduce the number of positions at the Board 7 percent by the end of 1986. PIP substantially reduced, and changed the structure of, the data processing divisions; it produced somewhat smaller reductions in the rest of the Board's divisions.

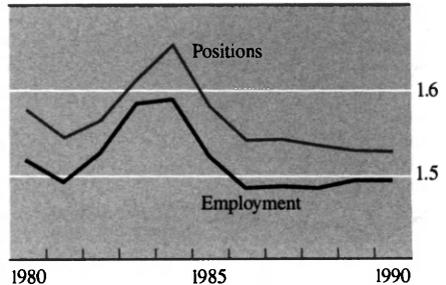
Although the project carefully considered the exemption of areas addressing problems such as the trade deficit and the debt positions of developing countries, it excluded only the supervision and regulation area from reductions. After six

Chart 2.4
Annual Rate of Change in Operating Expenses of the Board of Governors, 1980-90¹



1. Excludes the Office of Inspector General. For 1989, estimate; for 1990, budget.

Chart 2.5
Employment and Positions at the Board of Governors, 1980-90¹



1. Year-end data. Excludes summer intern and youth positions and the Office of Inspector General. For 1989, estimate; for 1990, budget.

positions supporting lower-priority functions in the supervision and regulation area were abolished, twenty-nine positions were added to the programs in the area directly concerned with the growing number of problems in the nation's banking industry. Even with this increase, the net number of positions Boardwide declined by seventy-three in 1985.

The one-time costs of implementing PIP, coupled with the intensified automation of critical functions, moderated the 1985 savings from lower salary costs. PIP yielded a further decrease of forty positions in 1986. The effect of these reductions was clearly evident in the changes in total operating expenses from 1985 to 1986 and from 1986 to 1987, which in current dollars averaged 2.6 percent per year; from 1987 to 1988, expenses in current dollars rose a more normal 4.2 percent. In 1980 dollars, expenses on average declined 0.1 percent per year between 1985 and 1988.

1989-90

With the costs of new legislative demands, a major survey of consumer finances, and the increases in salary expense tied to the first phase of the new compensation program, expenses in 1989 rose 6.3 percent in current dollars and 2.8 percent in 1980 dollars.

In 1990 the path turned further upward with the full implementation of the compensation program, the full-year effect of added legislative requirements associated with FIRREA, and continued pressures in the supervision function. Although the Board authorized ten new positions in the area of supervision and regulation, reductions in overhead and support have kept the number of positions at the Board slightly below the level in 1989. Pressure in other areas, such as programs dealing with financial markets, has been met through overtime and reduction in the

level of long-term research that is funded within the budget.

Office of Inspector General

The Board created the Office of Inspector General in July 1987. The reporting relationships, duties, and responsibilities of the OIG were formalized by the Inspector General Act Amendments of 1988.

The 1990 operating budget for the OIG is \$1.7 million, \$1.0 million more than estimated 1989 expenses. The 131 percent increase reflects the adjustment of a fairly new organization, the additional responsibilities related to the Inspector General Act Amendments, and the cost of rented office space acquired for the OIG beginning in 1990. The higher level of funding will provide broader and deeper audits and investigations of the Board's operating areas and expanded reviews of new and existing laws and regulations for their effect on the operations and expenses of the Board.

The net increase in the number of OIG positions is six—three auditors, a new investigator, an administrative assistant, and a secretary—and brings the total to fifteen.

The \$1.0 million increase in operating costs includes the rise in the number of positions (\$0.4 million), normal increases in the costs of salary and fringe benefits (\$0.1 million), and \$196,000 for office space, utilities, and other services.² It also includes \$167,000 for additional travel for a higher volume of visits to Reserve Banks, for reimbursement to the Reserve Banks for travel costs of staff performing operations reviews, and for the transportation required for staff train-

2. Office space, utilities, and other services are charged to the OIG function in parallel to the allocation of support and overhead to the operational areas.

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ing. A higher volume of data processing support, necessary to track projects and analyze data, will add \$71,000 to OIG expenses, while the acquisition of office automation equipment, in part to support new staff, will add \$33,000. ■

Chapter 2

Board of Governors

The 1991 budget of the Board of Governors totals \$110.2 million for its four operational areas, \$0.6 million for extraordinary items, and \$1.8 million for the Office of Inspector General (OIG). The Board authorized 1,557 positions for its operational areas and 19 for the OIG. The authorized positions in the operational areas increased by three despite reductions in support and overhead largely because of increases in supervision and regulation and in System policy direction and oversight. These increases resulted from continued growth in workload due to problems in the financial industry, continuing implementation of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and changes occurring in the payments system mechanism. The number of positions authorized for the OIG, which expanded late in 1990 to handle an increase in the scope and depth of coverage it gives to Board operations, has not changed in the 1991 budget.

Beginning in 1990, the OIG budget was approved separately in a more formal recognition of the OIG's budgetary independence. In the analysis that follows, the 1988, 1989, and 1990 expenses of the OIG have been removed from the Board's regular operating expenses to ensure the consistent presentation of data.

Major Initiatives

The proposed budget contains sufficient funding to meet the major Board objectives in each division, including expanding the Board's oversight of the condition of the nation's financial institutions; implementing risk-based capital standards; supporting FIRREA; improv-

ing payments system operations while reducing payments system risk; continuing to invest in productivity initiatives, including office automation and records management; developing the National Information Center to provide relevant banking-structure data; and maintaining a safe and effective working environment.

Funding for initiatives amounted to approximately half the level that the divisions requested. Initiatives to perform additional electronic-data-processing audits and to improve automation, the management of distributed processing, and the appearance of facilities could not be fully funded within the level of funding acceptable to the Board.

Extraordinary Items

As of 1991, the costs of extraordinary items are no longer subsumed under the Board's basic operating accounts. Despite good reasons for the practice, the Board's funding of certain System-related expenses, coupled with the costs of items such as large interagency surveys, has created undue swings in the budget and has resulted in competition for funds between these initiatives and the requirements of the Board's basic mission. It has also distorted the analyses of the Board's stewardship of resources in conducting its own operations. Therefore, this budget presents three such items separately: a survey of System officers' salaries, an audit by an outside firm of one Reserve Bank, and Board participation in a Census Bureau survey of plant capacity.

As part of a System project to ensure appropriate levels of compensation, a periodic survey of officer salaries is

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conducted. According to the schedule, the next survey is to be accomplished in 1991 and will review the salaries of positions in industry similar to those of officers at the twelve Reserve Banks and the Board to promote consistency with local markets.

The second project will be an audit of one Reserve Bank by a public accounting firm. The Financial Examinations Program in the Division of Reserve Bank Operations and Payment Systems will audit the remaining Banks as usual. The objective of the outside audit is to assure the Board, through an independent audi-

tor, that controls and procedures are being maintained in accordance with industry standards.

The final project is to participate in a survey of plant capacity being conducted by the Census Bureau. This effort reflects the Board's interest in the economic data to be collected.

Operational Areas

The Board's activities fall into four broadly defined operational areas: monetary and economic policy, supervision and regulation of financial institutions, system policy direction and oversight, and support and overhead.

Table 2.1

Expenses of the Board of Governors for Operational Areas and Office of Inspector General, 1989-91¹

Thousands of dollars, except as noted

Type of expense	1989 actual	1990 estimate	1991 budget	1989-90 change		1990-91 change	
				Amount	Percent	Amount	Percent
Monetary and economic policy	50,200	52,000	54,242	1,800	3.6	2,242	4.3
Supervision and regulation ..	23,532	28,946	32,781	5,414	23.0	3,835	13.2
Services to financial institutions and the public	2,462	2,626	2,872	164	6.7	246	9.4
System policy direction and oversight	19,099	19,509	20,320	410	2.1	811	4.2
Total, operational areas ...	95,293	103,081	110,215	7,788	8.2	7,134	6.9
Office of Inspector General..	718	1,382	1,773	664	92.5	391	28.3

1. Operating expenses include allocations for support and overhead.

Table 2.2

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1989-91

Type of expense	1988 actual	1989 estimate	1990 budget	1989-90 change		1990-91 change	
				Amount	Percent	Amount	Percent
Monetary and economic policy	398	399	399	1	.3	0	0
Supervision and regulation ..	264	277	285	13	4.9	8	2.9
Services to financial institutions and the public	20	20	22	0	0	2	0
System policy direction and oversight	152	155	153	3	2.0	-2	-1.3
Support and overhead	722	703	698	-19	-2.6	-15	-.7
Total	1,556	1,554	1,557	-2	-.1	3	.2
Office of Inspector General..	9	19	19	10	111.1	0	0

services to financial institutions and the public, and System policy direction and oversight (see also chapter 1 and appendix A). The costs include those for support and overhead, allocated to each operational area according to its proportion of total direct expenses. Tables 2.1 and 2.2 display respectively the operating expenses and the number of authorized positions in each of the operational areas for 1989-91.

For 1991, the Board of Governors has budgeted operating expenses of \$110.2 million, an increase of \$7.1 million, or 6.9 percent, over estimated expenses for 1990. This amount does not include the budget for the Office of Inspector General or the extraordinary items.

The growth in Board expenses between 1990 and 1991 is less than the 1989-90 increase. The 1991 budget increase is influenced by the need to strengthen supervision and regulation further, to raise the level of salaries to remain competitive in the marketplace, and to meet increased expenses for health insurance, Medicare, and the Board's thrift plan.

Monetary and Economic Policy

Under its monetary and economic policy function, the Board monitors and analyzes developments in the money and credit markets, sets reserve requirements, approves changes in the discount rate, participates in the deliberations of the Federal Open Market Committee, and otherwise manages the nation's monetary policy. This function is expected to cost \$54.2 million in 1991, an increase of \$2.2 million, or 4.3 percent, over 1990. Most of this change results from the increase in pay and benefits and the 1991 component of the automation plan supporting this function. Despite continuing growth in the workload, no new positions are budgeted for this function.

Besides maintaining the quality of economic analyses and forecasts, this budget continues major commitments of resources to implement FIRREA, develop the National Information Center (NIC), and support analyses of changes in the economy and the financial system.

The enactment of FIRREA has required substantial resources on issues relating to deposit insurance, monitoring of the savings and loan industry, and support to the Oversight Board of the Resolution Trust Corporation.

Development of the NIC, discussed in detail under supervision and regulation, will continue to require resources from the monetary and economic policy area. During 1990, requirements and plans for modifying current software to gain access to the NIC database will be finalized, and some software will be modified.

The economic and financial situation in 1991 will demand particularly close monitoring and accurate analysis in support of monetary policy. At the same time, the structure and regulation of the nation's financial system are under review, and the research divisions are analyzing the policy issues. Such support and policy analyses are also important in the Board's efforts to improve payments system operations and reduce payments system risk.

The growth of expenses in the monetary and economic policy area is held down because earlier investments in distributed processing systems have reduced the costs of centrally provided automation services. The successful automation program has also limited the growth of costs by allowing the existing staff to carry the increasing workload.

Supervision and Regulation

Supervision of financial institutions includes reviews of examination and inspection reports on state member banks

prepared by the Reserve Banks, special studies related to international applications, the direction of enforcement actions, and the regulation of trust activities. Regulation includes the formulation of regulations; the oversight of mergers, foreign banking activities, and compliance with consumer regulations; and the regulation of securities credit.

The 1991 budget funds considerable growth in this operational area. The budget of \$32.8 million is \$3.8 million, or 13.2 percent, greater than estimated expenses for 1990. Eight new positions have been added, related primarily to development and implementation of policy, supervision of money center banks, and increased consumer compliance. Most of the positions are related to FIRREA and to underlying problems and new developments in the financial industry.

Besides the direct cost associated with the new positions, the budget continues to fund the Board's share of the automation costs for the development of the NIC. In 1988, the Board approved the creation of the NIC to provide a database on the structure and finances of the nation's banks and bank holding companies. The staff has made substantial progress since 1988 to define the requirements of the project and to develop the database. The 1991 budget provides funds to complete the establishment of the NIC by May. Further efforts in this important area will continue in 1991 as current software is revised to operate using the NIC database. This project, as the only source of consolidated structure and financial data, is needed for proper supervision and regulation of the banking and financial industry. It will reduce Systemwide costs, improve the integrity of the data, and lead to more timely and meaningful analysis of applications, merger requests, and other actions in a rapidly changing environment.

The office automation networks supporting this functional area will be substantially upgraded during 1991. The budget includes funds for improving document storage and retrieval facilities and database management facilities on the network. On a much smaller scale, the Division of Consumer and Community Affairs will also replace old and inefficient microcomputers.

Services to Financial Institutions and the Public

This operational area is composed of programs supporting the payments mechanism function of the Federal Reserve System. Its budget of \$2.9 million is \$246,000, or 9.4 percent, higher than 1990 estimated expenses.

A major factor in the higher costs is the continued emphasis on reducing risk in the payments system and ensuring that the payments system responds quickly and efficiently to changes in the financial system. The budget includes two new positions to develop policies and procedures to reduce payments system risk by analyzing characteristics and risks associated with national and international payment and settlement systems.

A large project to develop software for managing currency orders and cash shipments was completed in 1990. Although this project will not result in operating savings for the Board, it will yield savings for the Reserve Banks from smaller orders for currency and reduced costs for transportation. The completion of this project in 1990 limits the overall increase in the 1991 budget.

System Policy Direction and Oversight

This budgetary area includes resources for supervising System and Board programs; it has been partially redefined as a

result of the removal of the budget of the Office of Inspector General. The financial data reflect this adjustment.

The \$20.3 million budget for System policy direction and oversight in 1991 is \$811,000, or 4.2 percent, more than estimated 1990 expenses. It has no major increases for mission. Staffing for Reserve Bank examinations continues to increase with the addition of an electronic-data-processing auditor, which has been added to help ensure that internal controls over the major automation systems of the Reserve Banks are adequate.

The budget for this area funds the replacement of old microcomputer equipment and some initiatives relating to the network in the Division of Federal Reserve Bank Operations.

Objects of Expense

In the 1991 budget, the most significant increase in expenses relates to salary. The increase, \$5.0 million, is significantly less than that in 1990 when the new compensation program was implemented. The successful implementation of the compensation program has reduced the number of vacancies and thus has increased projections of salary costs for 1991.

The largest element of the salary increase is \$4.2 million for the merit pay raises. Reduced lapse, associated with a higher percentage of filled positions in 1991, adds \$0.6 million. The cost of the salaries for eleven new positions exceeded the savings of \$0.3 million associated with the deletion of eight unrelated positions. A small amount is for routine reclassifications and promotions. A higher level of income for reimbursement for services to the FFIEC reduces the budgeted increase by \$0.2 million.

Retirement costs are up \$884,400, or 19.8 percent, primarily because of the increases in the Board's matching contri-

bution to the thrift plan, in the wage base subject to social security taxes, and in the proportion of staff covered by social security.

For the third consecutive year, health insurance costs have risen sharply. The increase for 1991 is \$0.8 million, or 15.7 percent. The cost of medical insurance for retirees, which has gone from \$362,000 in 1990 to \$529,000 in the 1991 budget, has also had an effect. A further cause of the increase was the increase in the salary base subject to the 1.45 percent Medicare tax from \$51,300 to \$125,000.

Capital Outlays

The capital budget request is \$5,131,700, which is \$1.1 million more than 1990 estimated expenditures. The budget funds requirements in the areas of automation and telecommunication, facilities improvements, and equipment replacements.

A major element of the capital budget is \$1.0 million to replace the analog telephone switching equipment with a digital private branch exchange. Maintenance of the old equipment has become excessive, and the risk to the Board from failure of this equipment is unacceptable.

Continued investment in the workstation, network, and office automation systems throughout the Board will require \$2,275,000. Such investments, which have been critical in limiting the need for additional staff to meet the Board's increasing workload, are in line with the Board's automation-telecommunication plan. Within the \$2.3 million total, the largest element is the workstation network in the Divisions of Research and Statistics and Monetary Affairs, which will cost \$950,000. These funds will provide new equipment to improve communications over the backbone network and will replace equipment that is

physically worn out or technologically obsolete. The funds will also be used to acquire equipment that will improve the security and backup capabilities of the system. The network provides a less-expensive way for the divisions to perform certain kinds of research computing. The Division of Banking Supervision and Regulation has been allocated \$450,000 to improve its network capabilities and to replace aging microcomputers that cannot process the division's large volumes of data and text on a timely basis. The records management project will require \$250,000 to automate and improve the Board's ability to store, retrieve, and index official records. Smaller automation requests throughout the Board account for the remaining \$625,000.

Improvements of facilities require a total of \$1,080,000. The replacement of the Martin Building roof will cost \$430,000. The replacement of heat exchange equipment and corroded steam coils will cost \$320,000. The dishwasher conveyor system in the cafeteria will be replaced at a cost of \$160,000. The fire and intrusion alarm system, begun in 1990, will be completed at a 1991 cost of \$170,000. This system will improve security and safety while reducing staffing requirements in the guard force.

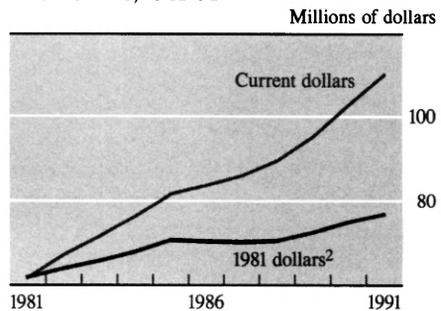
Ten-Year Trend

From 1981 through 1991, the Board's operating expenses have grown from \$61.8 million to \$110.2 million, an average increase of 6.0 percent per year in current dollars and 2.2 percent in constant dollars (chart 2.1). During this period, the costs for personnel have increased at an average of 6.0 percent per year in current dollars (chart 2.2), while expenses for goods and services have increased by 5.7 percent a year (chart 2.3). When measured in constant dollars,

expenses for personnel rose more quickly relative to those for goods and services, 2.3 percent per year and 1.9 percent per year respectively. The faster pace for personnel costs reflects the substantial investment in the Board's new compensation program.

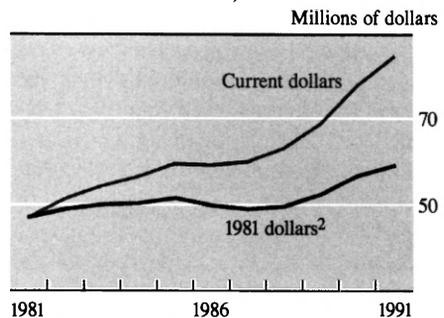
The size of the actual annual increases in expenses has varied greatly (chart 2.4): Periods of major growth in the workload have required additional resources, which have then been scaled

Chart 2.1
Operating Expenses of the Board of Governors, 1981-91¹



1. Excludes the Office of Inspector General and 1991 extraordinary items. For 1990, estimate; for 1991, budget.
2. Calculated with the GNP price deflator.

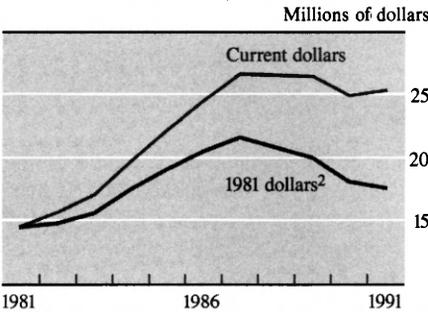
Chart 2.2
Expenses for Personnel Services at the Board of Governors, 1981-91¹



1. Excludes the Office of Inspector General. For 1990, estimate; for 1991, budget.
2. Calculated with the GNP price deflator.

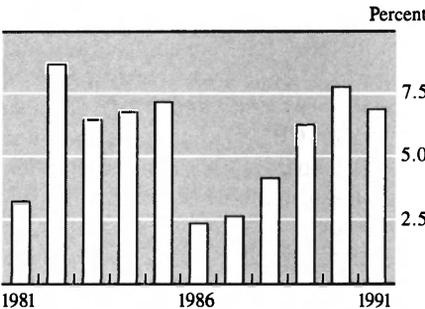
back as the new work has been assimilated, productivity-enhancing technology acquired, and lower-priority tasks discontinued. This variation is reflected also in the changes in staffing during the first half of the ten-year period (chart 2.5). While staffing has been lower during the latter portion of the period, the workload of Board staff has continued to increase. Staffing has been controlled because of productivity gains from office automation.

Chart 2.3
Expenses for Goods and Services at the Board of Governors, 1981-91¹



1. Excludes the Office of Inspector General and 1991 extraordinary items. For 1990, estimate; for 1991, budget.
2. Calculated with the GNP price deflator.

Chart 2.4
Annual Rate of Change in Operating Expenses of the Board of Governors, 1981-91¹



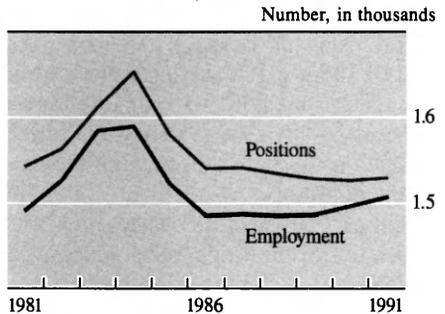
1. Excludes the Office of Inspector General. For 1990, estimate; for 1991, budget.

The following discussion breaks the ten years from 1981 through 1991 into three segments: 1981-84, when resources, particularly for data collection and storage, were added to meet the requirements of major legislation; 1985-87, when adjustments by the Board reduced the number of positions added during the previous period; and 1988-91, when the year-to-year decreases associated with the position reductions of the earlier period ended and the new compensation program, with its correction of salary levels, caused the rate of increase to return to a more normal pace.

1981-84

Expenses rose sharply during this period. Federal pay increases during these years, although markedly below those in the private sector, were high compared with the federal increases approved later in the decade. More significant, however, were the costs of resources added to meet the requirements of new legislation. The average increase in expenses for these years, 7.4 percent, derived from legislation such as the Monetary Control Act

Chart 2.5
Employment and Positions at the Board of Governors, 1981-91¹



1. Year-end data. Excludes summer intern and youth positions, the Office of Inspector General, and the FFIEC. For 1990, estimate; for 1991, budget.

(MCA), the International Banking Act (IBA), and the Financial Institutions Regulatory and Interest Rate Control Act (FIRA) and was at its highest point during the ten-year period.

Under the MCA, the number of institutions directly or indirectly reporting financial data to the Federal Reserve tripled, from about 14,000 to about 45,000, and the number of items all institutions were required to report grew substantially. This surge in the volume of work handled at the Federal Reserve required a new mainframe computer and large additions to the staff for data processing. The requirement of the MCA that the Federal Reserve price many services it had previously provided without explicit charge and expand their availability also imposed costs of implementation. During this period, also, deregulation and other changes in the banking industry arising from the Financial Institutions Regulatory and Interest Rate Control Act required additional staff in the supervisory function throughout the System. To meet all of these requirements, the number of positions grew from 1,543 to 1,653, an average increase of 2.3 percent per year, over the period.

1985-87

In mid-1984, the Board established the Program Improvement Project (PIP) with the goal of reducing the number of positions at the Board 7 percent by the end of 1986. PIP made large changes in the structure and size of the data-processing divisions; somewhat fewer reductions occurred throughout the rest of the Board.

Under PIP, careful consideration was given to exempting areas addressing problems such as the trade deficit and the debt positions of developing countries; however, the only area excluded from the overall reduction program was super-

vision and regulation. Six positions supporting lower-priority functions in the supervision and regulation area were abolished, and twenty-nine positions were added to the programs directly concerned with the growing problems in the nation's banking industry. Even with this increase, the net decrease in positions at the Board in 1985 was seventy-three.

The one-time costs of implementing PIP, plus greater efforts to automate critical functions, limited the effect of these reductions on the Board's expenses in 1985. In 1986, PIP decreased staffing by another forty positions. The effect of these reductions was clearly evident in 1986 and 1987, when the growth of expenses was 2.4 percent and 2.0 percent respectively.

1988-91

Without the legislative demands of the earlier years of the decade or the one-time increment in savings from the staff reductions of the middle years, increases in the Board's expenses returned to a more normal average of 5.4 percent per year in 1988 and 1989.

In mid-1989, management of the Contingency Processing Center (CPC), the relocation facility for the Board and the backup data-processing facility for the System, was transferred from the Board to the Federal Reserve Bank of Richmond. The decision for the transfer was based on the increasing Reserve Bank requirements for backup facilities and support. The decision reduced Board expenses in 1989 and 1990. It also allowed ten CPC positions to be abolished from the Board's 1989 budget and eight positions to be abolished from the Board's 1990 budget.

In 1990, expenses rose because of the full implementation of the compensation program, the added legislative requirements associated with FIRREA, and the

continued pressures in supervision. Ten positions were authorized in supervision in 1990 although, because of the redirection of staff resources and positions, Board employment has remained essentially constant. Pressure in other areas, such as programs dealing with financial markets, has been met through overtime and a reduction in long-term research that is funded within the budget.

The 1991 budget has returned to the lower levels of growth seen in recent years. Even with the lower percentage growth level, resource demands in supervision and regulation and in services to financial institutions and the public grew for reasons discussed earlier.

Budget of the Office of Inspector General

The Board created the Office of Inspector General in July 1987. In 1989, the OIG's reporting relationships, duties, and responsibilities were formalized by the Inspector General Act Amendments of 1988. The OIG's budget is managed differently from the other Board budgets to ensure its independence. It is also presented to the Board separately from the regular operating budget. It is, however, subject to the same administrative processes and the same schedule of submission that other Board budgets are.

The 1991 budget for the OIG is \$1.8 million, which is \$391,000, or 28.3 percent, more than estimated 1990 expenses. The increased resources are necessary to phase-in broader audit and investigation coverage of the Board's mission areas and to review new and existing laws and regulations for their effect on the economy and efficiency of Board programs and operations.

The Office's 1991 budget provides for no increase in staffing, which remains at nineteen positions, the level attained when four positions were added in late 1990.

The \$391,000 increase is tied largely to staff increases and the full-year cost of four positions added late in 1990. An increase of \$55,000 in the travel budget is associated with auditing functions delegated by the Board to Reserve Banks.

Chapter 2

Board of Governors

The 1992 budget of the Board of Governors comprises three parts: a Board operations budget of \$123.6 million, an extraordinary items budget of \$3.2 million for special projects of a unique or one-time nature, and an Office of Inspector General budget of \$2.0 million. The Board authorized 1,608 positions for the operational areas and 21 for the Office of Inspector General; no positions are required for the extraordinary items budget.

Overview of the Budget

Board Operations

The operations budget of \$123.6 million, which covers the Board's four operational areas, is 11.4 percent greater than estimated 1991 expenses. Increases in salaries and benefits for current personnel and in the price of goods and services account for 51 percent of the rise. Initiatives to increase staffing and improve automation, largely in the supervision and regulation and monetary and economic policy operational areas, account for the remaining 49 percent.

The budget adds a total of forty-one positions and abolishes two for a net increase of thirty-nine. Of this total, twenty-five positions are for the supervision and regulation function. Coupled with positions added during 1991 and fewer vacancies, the new positions will enhance the Board's ability to manage a growing workload in international supervision, enforcement, and litigation as well as increased responsibilities arising from such legislation as the For-

eign Bank Supervisory Enhancement Act. Fourteen positions have been added for the monetary and economic policy function to strengthen and expand long-term research, to help in a nationwide effort to improve the quality of government economic statistics, and to enhance analytical capabilities through additional automation.

Major Initiatives

The operations budget provides for increased staffing, improved training programs, and improved automation support for the supervision and regulation function. These changes are necessary to meet continued growth in workload, particularly in international supervision, policy analysis, applications, litigation, and enforcement. Initiatives in the area of monetary and economic policy require increased staffing to support a governmentwide effort to improve economic statistics. Other important initiatives are more Boardwide in focus and include improved automation capabilities, a higher level of facilities maintenance, and creation and acquisition of additional office space. The budget does not include funds to meet requirements of potential legislation. If legislation is passed, new requirements will be considered by the Board. Also, the budget does not provide funds for a special investigative unit proposed for the supervision and regulation function but not yet fully developed or costed out. A proposal will be presented to the Board when the objectives are reviewed and the necessary resources identified.

12 *Annual Report: Budget Review, 1991-92***Extraordinary Items**

The \$3.2 million budget for extraordinary items covers a 1992 Survey of Consumer Finances to enhance the quality of economic data, an audit of the Federal Reserve Bank of Kansas City by an outside firm, and a study by an outside consultant to ensure the security of the transfer of funds and securities via Fedwire.

Office of Inspector General

The \$2.0 million budget for the Office of Inspector General is \$0.3 million, or 17.1 percent, greater than estimated 1991 expenses. The majority of the increase will fund two new audit manager positions. Also included in the budget is an increase for travel and training associated with implementation of a new Developmental Assignment Program.

Operations Budget by Operational Area

The 1992 Board activities fall into 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 (also see chapter 1 and appendix A). For each operational area, the costs shown include support and overhead expenses, which are allocated to each area in proportion to direct expenses. Higher costs associated with salary increases, rate increases for insurances, and other items that affect expenses in all operational areas are not discussed separately by area, but they are included in the discussion by object class. Data on expenses and positions for each operational area for 1990-92 are shown in tables 2.1 and 2.2.

Monetary and Economic Policy

The budget for monetary and economic policy is \$59,712,000; this amount is \$4,482,000, or 8.1 percent, more than estimated 1991 expenses. The budget provides an increased level of funding for the divisions that support this

Table 2.1

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 1990-92¹

Thousands of dollars, except as noted

Type of expense	1990 actual	1991 estimate	1992 budget	1990-91 change		1991-92 change	
				Amount	Percent	Amount	Percent
Monetary and economic policy	51,259	55,230	59,712	3,971	7.7	4,482	8.1
Supervision and regulation ..	29,092	32,223	38,649	3,131	10.8	6,426	19.9
Services to financial institutions and the public	2,765	2,947	3,328	182	6.6	381	12.9
System policy direction and oversight	19,283	20,465	22,216	1,182	6.1	1,751	8.6
Total, Board operations ...	102,399	110,865	123,555²	8,466	8.3	12,689	11.4
Extraordinary items	0	335	3,161	335	...	2,826	...
Office of Inspector General ..	1,341	1,714	2,007	373	27.8	293	17.1

1. Operating expenses include allocations for support and overhead.

2. The Savings Target has been removed from the total, but not from the individual operational areas; therefore, the details do not sum to the total.

function to meet an increasing workload, expand long-term research, and improve the quality of economic data. Automation initiatives, including continuation of the phased development of the research computing system, are key elements of the divisions' plans to manage the workload. Because productivity improvements alone are no longer sufficient, the budget requests fourteen new positions: six economists, five research assistants, and three information systems analysts. (A fourth information systems analyst position added in the Division of Research and Statistics supports the supervision and regulation function.)

Investments in research automation have produced productivity gains that, combined with adjustments in priorities and reductions in long-term research, have limited the degree of staff growth. The greater personnel requirements, in large measure driven by an effort to meet analytical requirements at the Board, also reflect increased support for the Division of Banking Supervision and Regulation and the Division of Consumer and Community Affairs. Questions on such topics as the farm

credit system, insurance companies, interest-rate risk, capital standards, and regulation of government-sponsored enterprises have added to the workload. Studies on banking legislation, deposit insurance, and consolidation in the banking industry are typical of areas requiring increased attention not possible with the current level of resources. The additional staff resources will slow continued growth in the volume of uncompensated overtime by exempt personnel and will allow for a moderate increase in long-term research.

Supervision and Regulation

The budget for supervision and regulation is \$38,649,000; this amount is \$6,426,000, or 19.9 percent, more than estimated 1991 expenses. A significant portion of the large increase will fund new staff positions. Twenty-five positions have been added, eighteen in the Division of Banking Supervision and Regulation, six in the Legal Division, and one in the Division of Research and Statistics. (A seventh position added in

Table 2.2

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead,¹ and Office of Inspector General, 1990-92

Type of expense	1990 actual	1991 estimate	1992 budget	1990-91 change		1991-92 change	
				Amount	Percent	Amount	Percent
Monetary and economic policy	401	401	415	0	0	14	3.5
Supervision and regulation ..	280	293	318	13	4.6	25	8.5
Services to financial institutions and the public	20	22	22	2	10.0	0	0
System policy direction and oversight	155	154	154	-1	-6	0	0
Support and overhead	701	699	699	-2	-.3	0	0
Total, Board operations ..	1,557	1,569	1,608	12	.8	39	2.5
Office of Inspector General ..	19	19	21	0	0	2	10.5

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

the Legal Division is associated with support and overhead.) These positions, in conjunction with positions added during 1991, particularly four attorney positions added in the Legal Division late in the year, account for the majority of the increase.

The additional Division of Banking Supervision and Regulation positions are required to meet the division's current workload. The six positions in the Legal Division were added largely in anticipation of passage of the Foreign Bank Supervisory Enhancement Act. No new positions have been added in the Division of Consumer and Community Affairs; however, should merger activity or protested actions increase significantly, that division may also require additional resources.

In addition to costs associated directly with new initiatives, the budget continues to fund the Board's share of the automation costs for development of the National Information Center (NIC). This project will be the sole source of consolidated structure and financial data and will be of major benefit to the supervision and regulation operational area. The 1992 effort will be devoted primarily to the transition from existing software to the NIC database. Development of the NIC will reduce Systemwide costs, improve data integrity, and lead to more timely and more meaningful analysis of applications, merger requests, and other actions.

Automation enhancements are needed to allow the divisions to replace obsolete equipment with equipment capable of greater interaction with the NIC, Bank Holding Company Performance Report (BHCPR), Home Mortgage Disclosure Act (HMDA), and other critical databases. The upgraded equipment will improve the staff's ability to meet tight deadlines and will result in higher-quality analyses and finished products.

Services to Financial Institutions and the Public

The budget for services to financial institutions and the public is \$3,328,000, an amount \$381,000, or 12.9 percent, more than estimated 1991 expenses. This operational area is composed almost entirely of programs supporting the payments function in the Division of Reserve Bank Operations and Payment Systems. The increase will fund development and improvement of the cash tracking project for the System and a lower level of staff vacancies.

System Policy Direction and Oversight

The budget for the System policy direction and oversight operational area is \$22,216,000, a \$1,751,000, or 8.6 percent, increase over estimated 1991 expenses. This function is composed of most of the Division of Reserve Bank Operations and Payment Systems and parts of the Offices of Board Members, Secretary, and Staff Director for Management.

The increase in this budget is less pronounced than the increases in the budgets for other operational areas because of fewer initiatives. Much of the rise is tied to a lower level of vacancies and a new position in the Office of Board Members. Development of main-frame software to provide improved financial information to the Division of Reserve Bank Operations and Payment Systems also affects costs.

Operations Budget by Division

Table 2.3 shows the 1992 budget for each Board division, office, and special account. The figures highlight the budget's emphasis on the supervision and regulation operational area, im-

proved distributed processing and office automation, and the economic statistics improvement project. Table 2.4 gives the number of authorized positions by division and office.

Division of Banking Supervision and Regulation

As a result of existing law and the condition of the banking industry, the workload in the Division of Banking Supervision and Regulation continues to increase in volume and complexity. The division's budget increase, \$3.4 million, or 24.4 percent, over estimated 1991 expenses, provides for new positions,

automation, and training resources. The Bank Holding Company Performance Report will be rewritten to improve responsiveness to System staff and to implement new ratio definitions.

The addition of eighteen positions will support a greater volume of international and multinational work, policy analyses, and applications issues. Much of the increase in workload continues to be driven by the condition of the banking industry, including requirements for increased enforcement, more detailed analysis of mergers and applications, rapid processing of government-assisted transactions, and development of policies related to

Table 2.3

Expenses of the Board of Governors, by Division, Office, or Special Account, 1990-92

Division, office, or special account	1990 actual	1991 estimate	1992 budget	1990-91 change		1991-92 change	
				Amount	Percent	Amount	Percent
Board Members	3,111,602	3,414,465	3,750,732	302,863	9.7	336,267	9.8
Secretary	3,100,526	3,449,313	3,581,553	348,787	11.2	132,240	3.8
Legal	4,682,066	4,996,667	5,996,364	314,601	6.7	999,697	20.0
Research and Statistics ..	20,498,526	21,718,513	23,642,884	1,219,987	6.0	1,924,371	8.9
International Finance ..	7,441,618	8,151,498	8,778,777	709,880	9.5	627,279	7.7
Banking Supervision and Regulation	11,712,263	13,947,628	17,349,519	2,235,365	19.1	3,401,891	24.4
Human Resources Management	3,321,848	3,655,868	4,037,932	334,020	10.1	382,064	10.5
Support Services	19,040,146	18,978,303	20,727,583	-61,843	-3	1,749,280	9.2
Controller	1,763,916	1,893,262	2,051,530	129,346	7.3	158,268	8.4
Consumer and Community Affairs	2,761,321	3,331,146	3,593,281	569,825	20.6	262,135	7.9
Staff Director for Management	4,048,852	5,269,386	5,739,801	1,220,534	30.1	470,415	8.9
Reserve Bank Operations and Payment Systems	9,838,372	10,770,462	11,669,347	932,090	9.5	898,885	8.3
Information Resources Management	19,550,103	21,059,940	22,967,821	1,509,837	7.7	1,907,881	9.1
Monetary Affairs	8,209,392	8,719,504	9,116,691	510,112	6.2	397,187	4.6
Special projects	1,254,264	1,236,479	1,589,314	-17,785	-1.4	352,835	28.5
IRM income account ¹	-17,935,439	-19,727,434	-21,038,617	-1,791,995	-10.0	-1,311,183	-6.6
Total, Board operations	102,399,376	110,865,000	123,554,512	8,465,624	8.3	12,689,512	11.4
Extraordinary items	0	335,000	3,161,000	335,000	...	2,826,000	...
Office of Inspector General	1,341,281	1,714,492	2,007,673	373,211	27.8	293,181	17.1

1. Income from various Board divisions for use of central IRM (Division of Information Resources Management) resources.

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innovations in the marketplace, such as mortgage-backed securities. Finally, the budget funds continued upgrades to office automation equipment and the expansion of network facilities.

The division's budget does not fund any requirements that might result from such proposed legislation as a banking reform bill or legislation similar to the Foreign Bank Supervisory Enhancement Act. Nor are funds budgeted for a proposed special investigative unit, pending development of requirements and identification of necessary resources.

Legal Division

The budget for the Legal Division has increased by \$1.0 million, or 20 percent over estimated 1991 expenses, to a total of \$6.0 million. Most of the increase will cover the costs of four attorney

positions added in late 1991 and seven new positions to be added in 1992. The positions added in 1991 were needed to handle growth in the international and litigation areas. The 1992 positions are needed as a result of recent legislation on international supervision, which significantly increased requirements for policy analysis and formulation.

Division of Information Resources Management

The increase in the 1992 budget for the Division of Information Resources Management, to a total of \$23.0 million, is needed to fund vendors' increases in prices of software and maintenance and to provide contractual support to meet the division's labor requirements. The increase will also fund initiatives to support requirements throughout the

Table 2.4

Positions Authorized at the Board of Governors, by Division or Office, 1990-92

Division or office	1990 actual	1991 estimate	1992 budget	Change	
				1990-91	1991-92
Board Members	40	38	38	-2	0
Secretary	57	58	57	1	-1
Legal	67	72	79	5	7
Research and Statistics	255	256	268	1	12
International Finance	103	103	105	0	2
Banking Supervision and Regulation	174	183	201	9	18
Human Resources Management	48	48	48	0	0
Concern ¹	22	22	22	0	0
Support Services	259	259	259	0	0
Controller	31	31	31	0	0
Consumer and Community Affairs	42	43	43	1	0
Staff Director for Management	8	7	7	-1	0
Reserve Bank Operations and Payment Systems	113	116	116	3	0
Information Resources Management	275	271	271	-4	0
Monetary Affairs	61	62	63	1	1
Special projects	2	0	0	-2	0
Total, Board operations	1,557	1,569	1,608	12	39
Office of Inspector General	19	19	21	0	2
FFIEC ²	11	12	12	1	0

1. EEO Concern positions managed by the Division of Human Resources Management.

2. Federal Financial Institutions Examination Council.

Board, such as improved records management and the premise-wide network, as well as some internal projects such as upgraded micro-computers.

Division of Research and Statistics

The budget for the Division of Research and Statistics is \$23.6 million, an increase of \$1.9 million, or 8.9 percent, over estimated 1991 expenses. Most of the increase is tied to the twelve new positions in 1992 and consulting services for the statistics improvement project. The new positions are needed to meet requirements for a larger number of banking, regulatory, and capital analyses and to improve the division's ability to perform long-term research. Five of the positions, as well as consulting support and automation resources, are needed for the project the division is undertaking in conjunction with government efforts to improve economic statistics. The budget also includes funds for continued expansion of the distributed processing system for the research divisions.

Division of Reserve Bank Operations and Payment Systems

The 1992 budget for the Division of Reserve Bank Operations and Payment Systems is \$11.7 million, an increase of \$0.9 million, or 8.3 percent, over estimated 1991 expenses. The increase is needed to enhance software for support of the System's cash and currency tracking projects and for office automation enhancements. A small portion of the increase will be used to address payments system issues in Eastern Europe and to adjust, through training, to the changing requirements affecting the skill mix of the division's staff.

Division of Support Services

The 1992 budget for the Division of Support Services is \$21.0 million, an increase of \$1.7 million, or 9.2 percent, over estimated 1991 expenses. Requirements for new office space to accommodate new positions budgeted for 1992 will add costs for reconfiguration of Board premises and additional leasing. The increase also will fund a higher level of maintenance necessary to care for aging facilities. Depreciation for 1991 capital investments in facilities and new telephone and security systems will also add cost.

Operations Budget by Object of Expense

The most significant expense item in the Board's 1992 budget is personnel expenses, which account for 75 percent of operating expenses. The increase in the salary budget, \$6.3 million, includes not only annual salary increases for current personnel but also salaries for new positions, both those added in late 1991 and the thirty-nine positions added for 1992. A lower vacancy rate also contributes to the increase. Retirement costs for 1992 are \$0.7 million, or 12.5 percent, greater than estimated 1991 expenses, primarily because of increases in the Board's matching contribution to the thrift plan and in the wage base subject to social security and medicare taxes.

Insurance costs also are up over estimated 1991 expenses, by \$0.3 million, or 5.4 percent. The rate increase for the Board's health insurance plan, combined with a higher level of staffing from new positions and fewer vacancies, accounts for \$0.4 million of the increase. The rate increases for the Federal employee health benefits plan, the effect of higher salaries on medicare, and

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miscellaneous increases add \$0.1 million. Partially offsetting these increases is a \$0.2 million decrease in workers compensation, reflecting a large one-time payout in 1991.

Table 2.5 presents the budget by object of expense. Increased use of contractual professional services will provide

software development support for important projects as well as expert advice for data improvement and examiner training initiatives, and at the same time will keep increases in permanent staffing to a minimum. Travel costs are expected to be higher in 1992 because of higher airfares, a greater

Table 2.5

Operating Expenses of the Board of Governors, by Object of Expense, 1990-92

Object of expense	1990 actual	1991 estimate	1992 budget	1990-91 change		1991-92 change	
				Amount	Percent	Amount	Percent
<i>Personnel</i>							
Salaries	68,565,290	73,821,168	80,165,410	5,255,878	7.7	6,344,242	8.6
Retirement	4,600,876	5,232,478	5,888,294	631,602	13.7	655,816	12.5
Insurance	4,931,007	6,462,477	6,812,277	1,531,470	31.1	349,800	5.4
Total	78,097,173	85,516,123	92,865,981	7,418,950	9.5	7,349,858	8.6
<i>Goods and services</i>							
Travel	3,402,408	3,791,561	4,502,591	389,153	11.4	711,030	18.8
Postage and expressage	1,141,989	1,245,076	1,270,800	103,087	9.0	25,724	2.1
Telephone and telegraph	1,758,280	1,698,767	1,641,150	-59,513	-3.4	-57,617	-3.4
Printing and binding	1,153,340	1,109,802	1,112,400	-43,538	-3.8	2,598	.2
Publications	-558,890	-651,750	-471,280	-92,860	-16.6	180,470	27.7
Stationery and supplies	897,458	866,475	863,481	-30,983	-3.5	-2,994	-.3
Software	2,100,704	2,463,726	3,037,952	363,022	17.3	574,226	23.3
Furniture and equipment	827,092	695,101	852,073	-131,991	-16.0	156,972	22.6
Rentals	-964,521	-917,677	-719,704	46,844	4.9	197,973	21.6
Books and subscriptions	578,255	630,541	721,343	52,286	9.0	90,802	14.4
Utilities	1,701,944	1,730,000	1,735,000	28,056	1.6	5,000	.3
Building repairs and alterations	943,208	877,921	1,723,500	-65,287	-6.9	845,579	96.3
Equipment repairs and maintenance	1,837,383	2,042,822	2,181,560	205,439	11.2	138,738	6.8
Contingency Processing Center expenses	236,866	238,100	291,922	1,234	.5	53,822	22.6
Contractual professional services	2,685,648	2,978,660	4,021,410	293,012	10.9	1,042,750	35.0
Tuition/registration and membership fees	601,730	757,800	989,929	156,070	25.9	232,129	30.6
Subsidies and contributions	529,289	714,210	682,254	184,921	34.9	-31,956	-4.5
Depreciation	5,881,929	5,795,775	6,378,380	-86,154	-1.5	582,605	10.1
All other	-451,909	-718,033	-126,230	-266,124	-58.9	591,803	82.4
Total	24,302,203	25,348,877	30,688,531	1,046,674	4.3	5,339,654	21.1
Total, Board operations	102,399,376	110,865,000	123,554,512	8,465,624	8.3	12,689,512	11.4
Extraordinary items	0	335,000	3,161,000	335,000	...	2,826,000	...
Office of Inspector General	1,341,281	1,714,492	2,007,673	373,211	27.8	293,181	17.1

volume of travel to resolve supervisory issues, and relocation costs for new staff. Software expenses are rising as a result of rate increases for mainframe software and the changing technological needs of the Board. Finally, with the aging of facilities, there is an increased need for building repairs and alterations.

Capital Budget

The capital budget for 1992 is \$5.0 million, or \$100,000 less than estimated 1991 expenditures. The budget provides for requirements in the areas of automation and telecommunications, improvements to facilities, and relatively small equipment replacements in such locations as the cafeteria.

Continued investment by all the Board's divisions in workstation, network, and office automation systems will cost \$3.3 million. The budgets for the divisions involved in research include funds for new and upgraded workstations, printers, and peripheral equipment. Also included are funds to enhance the system used by the Division of International Finance to make it compatible with both the DOS- and UNIX-based systems used throughout the Board. The budget for the Division of Information Resources Management includes funds for a premise-wide network and a document-management system. The budget for the Division of Banking Supervision and Regulation includes new file servers, improved microcomputers, and other enhancements to improve data storage, handling, and retrieval capabilities needed to take full advantage of all data sources, including the new supervisory information system. Automation equipment for new staff is also included in the budget.

The remaining funds are for smaller projects. For example, the Office of the Controller is acquiring a specialized

network to run the Financial Management System (FMS) more efficiently, using off-the-shelf software, in a distributed environment. The Division of Support Services is acquiring a larger network device on which to manage a large library of software tailored to its needs as well as a system to replace the computer that monitors and controls energy consumption. The division's budget also includes funds for a video-conferencing bridge that will improve communications and reduce Boardwide travel costs.

Facilities improvements include a number of projects. The first phase of a multiyear effort to repair concrete slabs in the north parking garage has been approved. A new air handler will improve heating, ventilation, and air conditioning in the data center. Capital funds will be required for reconfigurations to provide office space.

Software costing more than \$50,000 is capitalized. The budget includes funds for such software for the mainframe, the new FMS, and the distributed system for the Division of Support Services.

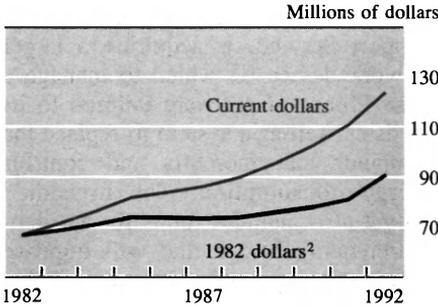
Trends

The increase in the 1992 operations budget of the Board over estimated 1991 expenses, 11.4 percent, is significantly greater than the 7.8 percent average annual rate of increase for the last five years and the 7.1 percent increase for the last ten years. The larger increase reflects the surge in workload that has finally exceeded the ability of managers to absorb through improved productivity. Charts 2.1 through 2.5 provide data on trends for the period from 1982.

Adjusted by the GNP deflator, the average annual increase in Board costs since 1982 has been 3.1 percent. Although this figure is low relative to the substantial growth in workload, the

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Chart 2.1
Operating Expenses of the Board of Governors, 1982-92¹



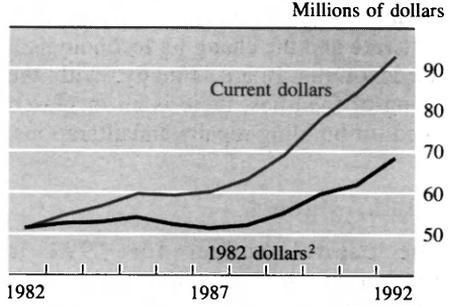
1. Excludes the Office of Inspector General and extraordinary items. For 1991, estimate; for 1992, budget.
2. Calculated with the GNP price deflator.

Year	Expenses in millions of	
	Current dollars	1982 dollars
1982	67.2	67.2
1983	71.6	69.1
1984	76.5	71.4
1985	82.0	74.3
1986	84.0	74.1
1987	86.3	73.8
1988	89.9	74.2
1989	95.6	76.3
1990	102.4	78.3
1991	110.9	81.4
1992	123.6	90.8

annual increase has been rising. For the ten years ending in 1990, the average annual increase was 1.5 percent. The recent rise is attributable to a higher level of staffing, adjustments of salaries resulting from the new employee-compensation program, and sharp increases in benefit costs, particularly for health insurance. The salary and benefit changes have had a particularly noticeable impact, as 75 percent of the Board's budget is for staffing.

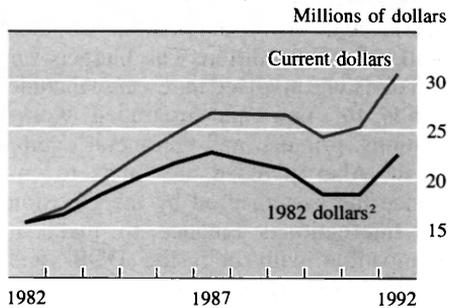
For the first time since 1988, the goods and services budget increased at a faster pace than the personnel budget. The shift is a result of depreciation expenses on a larger stock of capitalized automation equipment, costs of maintaining the Board's facilities and pro-

Chart 2.2
Expenses for Personnel Services at the Board of Governors, 1982-92¹



1. Excludes the Office of Inspector General. For 1991, estimate; for 1992, budget.
2. Calculated with the GNP price deflator.

Chart 2.3
Expenses for Goods and Services at the Board of Governors, 1982-92¹

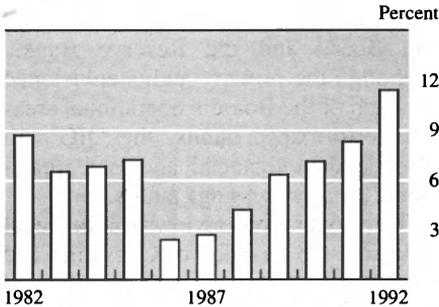


1. Excludes the Office of Inspector General and extraordinary items. For 1991, estimate; for 1992, budget.
2. Calculated with the GNP price deflator.

viding additional office space, and a decision to satisfy software requirements through temporary contractual arrangements rather than hiring additional permanent staff. The latter decision was made in recognition of the temporary nature of the increased requirement for development of software for the mainframe.

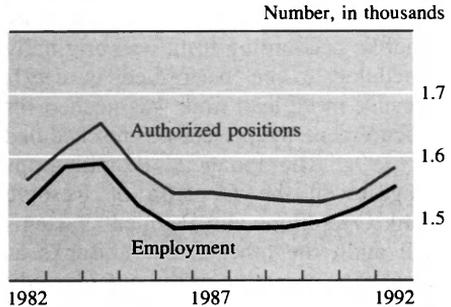
Personnel costs have been affected by the increase in the total number of positions and the decline in the number of position vacancies. The 1992 increase

Chart 2.4
Annual Rate of Change in Operating Expenses of the Board of Governors, 1982-92¹



1. Excludes the Office of Inspector General and extraordinary items. For 1991, estimate; for 1992, budget.

Chart 2.5
Employment and Authorized Positions at the Board of Governors, 1982-92¹



1. Year-end data. Excludes twenty-eight summer intern and youth positions and Office of Inspector General. For 1991, estimate; for 1992, budget.

in positions, to a total of 1,608, returns the Board to the same number as in 1985. In recent years, increases in the supervision and regulation operational area were offset by decreases elsewhere. Between 1985 and 1991, the number of positions in the Division of Banking Supervision and Regulation increased from 138 to 183 while the overall number of positions at the Board declined.

The combined effects of the new employee-compensation program and the slowdown in the economy have resulted in a reduced rate of staff turnover and a lower level of vacancies. This is proving extremely important to the Board in meeting key requirements. Turnover in 1991 was the lowest in many years, and a low rate is projected in the 1992 budget.

The 1992 rate increase for the Board's health insurance plan, 6.3 percent, is significantly below the 22 percent annual rate of increase in the previous five years. The lower rate of increase reflects some reductions in the plan's benefits, necessary in light of the large and continuing increases that were pro-

jected to continue indefinitely without management action.

Extraordinary Items

Three projects are covered by the extraordinary items budget. The first is the 1992 Survey of Consumer Finances, which will collect important financial data used for a wide variety of policy analysis and monetary policy purposes. The project reflects the Board's interest in enhancing the quality of economic data by obtaining information on income, assets, debts, pensions, employment, use of financial services, savings behavior, and other characteristics of U.S. households. Cross-categorization of the data

Year	Employment	Authorized positions
1982	1,525	1,563
1983	1,583	1,612
1984	1,588	1,653
1985	1,521	1,580
1986	1,484	1,540
1987	1,486	1,541
1988	1,484	1,534
1989	1,485	1,528
1990	1,495	1,529
1991	1,516	1,541
1992	1,550	1,580

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will allow important statistical observations useful in a wide variety of economic studies.

The second project, an audit of the Federal Reserve Bank of Kansas City by a public accounting firm, was originally scheduled to be performed in 1991; because more lead time was needed for procurement, the project was rescheduled for 1992. The Financial Examinations Program in the Division of Reserve Bank Operations and Payment Systems will audit the other Reserve Banks as usual. The objective of the outside audit is to provide assurance that internal audits at the Reserve Banks achieve desired controls and standards consistent with those applied by the accounting profession.

The third project covered by the extraordinary items budget is a study by an outside consultant to ensure the security of the transfer of funds and securities via Fedwire. The study will focus on additional security enhancements that should be incorporated in the Federal Reserve System information security architecture to ensure the reliability and security of the Fedwire system.

Office of Inspector General

The 1992 budget for the Office of Inspector General (OIG) funds implementation of the 1992 portion of the *OIG Strategic Plan 1991-1995* to audit, review, and investigate Board operations, to help ensure economic and efficient use of the Board's resources.

The budget of \$2,007,673 is \$293,181, or 17.1 percent, higher than estimated 1991 expenses. The increase is due largely to the addition of two new audit manager positions and related expenses. The office's goods and services expenses will decrease slightly, primarily because

of a one-time software purchase in 1991 and reduced use of external legal services.

The office's operations continue to expand into the main mission areas of the Board and the Reserve Banks. Although the primary audits envisioned for each of the Board's operational areas are performance audits, the OIG will also conduct financial and EDP (electronic data processing) audits.

Three operations reviews (of the Legal Division, the Division of Consumer and Community Affairs, and the Office of Board Members) scheduled for 1992 are the last remaining to be conducted during the five-year cycle begun in 1988.

The two new audit manager positions added for 1992 will increase the number of authorized positions to twenty-one. The new audit managers will be responsible for specific audit sections. The investigation function will cover the full range of investigative requirements arising from complaints, indications of waste, fraud, and abuse identified by audit staff or management, and requests from management or the Congress. Advice on fraud detection also will be provided as part of the audits and operations reviews. Responsibilities for review of legislation and regulation will continue. ■

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 oper-

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ating 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 Cleve-

land 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 Concern ¹	48	48	48	0	0
.....	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
<i>Personnel</i>							
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
<i>Goods and services</i>							
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, 1991-93¹

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, 1991-93¹

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

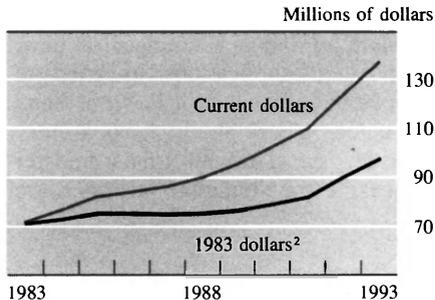
The budget for System policy direction and oversight is \$25,952,000, a 9.1 percent increase over estimated 1992 expenses. This operational area encompasses supervision of Board and Reserve Bank programs; the 1993 budget reflects the addition of the Payment System Risk and the Payment System Studies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

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-

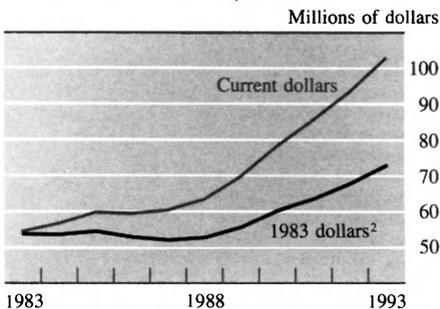
Chart 2.1
Operating Expenses of the Board of Governors, 1983-93¹



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.

Chart 2.2
Expenses for Personnel Services at the Board of Governors, 1983-93¹



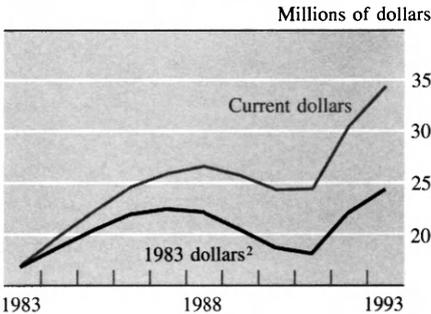
1. Excludes the Office of Inspector General. For 1992, estimate; for 1993, budget.
2. Calculated with the GDP price deflator.

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.

Chart 2.3
Expenses for Goods and Services at the Board of Governors, 1983-93¹



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

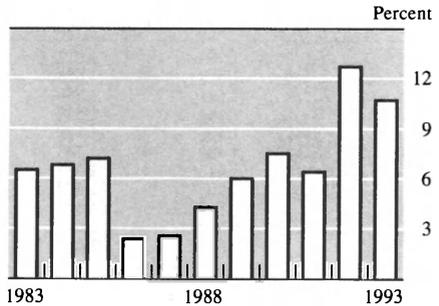
The Division of Support Services's budget includes \$3.2 million to support the new leased office space, to refurbish and reallocate space in the Martin Building, and for other equipment for the cafeteria and mechanical plant.

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 2.4
Annual Rate of Change in Operating Expenses of the Board of Governors, 1983-93¹



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

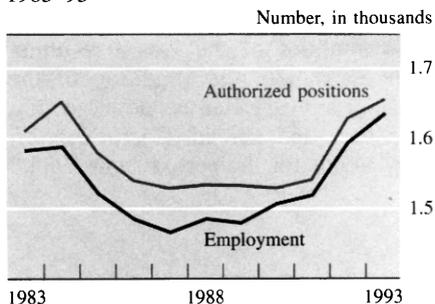
22 Annual Report: Budget Review, 1992-93

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,
1983-93¹



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 2

Board of Governors

The 1994 budget of the Board of Governors provides \$142.8 million for operations, \$1.0 million for extraordinary items (projects of a unique or one-time nature), and \$3.0 million for the Office of Inspector General. The Board has authorized 1,708 staff positions for the operational areas and 32 positions for the Office of Inspector General; no positions are required for the extraordinary items. The total budget of \$146.8 million represents an increase of \$6.3 million, or approximately 4.5 percent, over estimated 1993 expenses. The total of 1,740 positions is a net increase of thirteen over the number authorized at the end of 1993.

Overview of the Budget

Board Operations

The operations budget of \$142.8 million, which covers the Board's four operational areas (described in the Introduction), is 4.2 percent greater than estimated 1993 expenses, the smallest percentage increase since 1987. Increased expenses to maintain operations at the 1993 level—expenses such as merit pay raises, rate increases for fringe benefits, the full-year cost of office space leased in 1993, space for training, and higher costs of goods and services—account for 1.8 percentage points of the increase. Initiatives to carry out new mandates, particularly in support of the supervision and regulation operational area, and to improve general operations account for the remaining 2.4 percentage points.

Sixteen new staff positions have been authorized, and three have been eliminated, for a net increase of thirteen.

Eight of the new positions support the supervision and regulation operational area, three are for System policy direction and oversight, and a net of two have been added for support and overhead.

Extraordinary Items

Inclusion of certain unique or one-time projects in the operations budget can result in undue swings in the size of the budget and create competition for funds needed to carry out the Board's basic mission; therefore, for the last few years, funds for these "extraordinary items" have been set apart from the Board's operations budget. For 1994, \$1.0 million has been budgeted for extraordinary items.

Included in the 1994 budget are funds for completion of a survey of small business finances, which was begun in 1993 to gather information from small and minority-owned businesses on their financial relationships, credit experiences, lending terms and conditions, income, and balance sheets. The budget also provides funds to begin a survey of consumer finances, which will be completed in 1995, and for hosting the 1994 meeting of the Governors of Central Banks of the American Continent.

Office of Inspector General

The 1994 budget for the Office of Inspector General of \$3.0 million is 4.9 percent greater than estimated 1993 expenses. The increase covers higher costs for salaries and benefits as well as full-year staffing of new positions authorized in the 1993 budget that were not filled for the entire year.

Operations Budget

The Board operations budget for 1994 can be broken down into two major areas: current-level activities—funds required to maintain Board operations at the 1993 level; and initiatives—funds for new projects and activities in 1994. The following paragraphs describe funding for these two areas. The overall operations budget, detailed by Board division, is shown in table 2.1, and the number of authorized staff positions budgeted to support Board operations are shown in table 2.2.

Current-Level Activities

The 1994 budget increase necessary to maintain Board operations at the 1993 level is \$2.6 million. Personnel costs for current positions are increasing \$3.9 million, and the cost of current goods and services is declining \$1.8 million.

The increase in personnel costs is largely for salaries. The budget includes \$2.1 million to provide staff salary increases averaging 2.5 percent. A higher level of employment is occurring as positions that were added in earlier budgets to meet a growing workload are

Table 2.1

Expenses of the Board of Governors, by Division, Office, or Special Account, 1992-94

Dollars, except as noted

Division, office, or special account	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
Board Members	3,729,505	4,262,253	4,288,735	532,748	14.3	26,482	.6
Secretary	3,492,070	3,722,976	3,778,847	230,906	6.6	55,871	1.5
Legal	5,805,505	6,745,646	7,233,537	940,141	16.2	487,891	7.2
Research and Statistics ..	23,407,067	23,701,713	23,687,386	294,646	1.3	-14,327	-.1
International Finance	8,418,640	8,631,737	8,910,645	213,097	2.5	278,908	3.2
Banking Supervision and Regulation	16,126,848	19,195,533	20,844,051	3,068,685	19.0	1,648,518	8.6
Human Resources Management	4,218,878	4,674,119	4,728,275	455,241	10.8	54,156	1.2
Support Services	21,202,198	23,698,297	24,407,425	2,496,099	11.8	709,128	3.0
Controller	1,989,768	2,202,679	2,449,119	212,911	10.7	246,440	11.2
Consumer and Community Affairs	3,818,638	4,438,389	4,648,660	619,751	16.2	210,271	4.7
Staff Director for Management	6,654,998	5,389,229	5,968,063	-1,265,769	-19.0	578,834	10.7
Reserve Bank Operations and Payment Systems	11,077,191	12,496,204	12,765,725	1,419,013	12.8	269,521	2.2
Information Resources Management (IRM) ..	22,198,103	24,712,852	24,889,331	2,514,749	11.3	176,479	.7
Monetary Affairs	8,520,621	8,220,452	8,263,013	-300,169	-3.5	42,561	.5
Special projects	2,533,797	1,261,883	2,659,848	-1,271,914	-50.2	1,397,965	110.8
IRM income account ¹ ..	-20,383,804	-16,343,204	-16,690,303	4,040,600	19.8	-347,099	-2.1
Total, Board operations	122,810,023	137,010,758	142,832,357	14,200,735	11.6	5,821,599	4.2
Extraordinary items	3,147,319	598,000	980,000	-2,549,319	...	382,000	...
Office of Inspector General	1,930,243	2,868,304	3,007,774	938,061	48.6	139,470	4.9

1. Income from various Board divisions for use of central IRM resources.

filled. The full-year costs in 1994 of the salaries and fringe benefits for new positions filled during 1993 account for \$1.6 million, and fewer vacancies, planned reclassifications, and other salary actions account for \$0.2 million. The expense for fringe benefits is increasing \$0.6 million, primarily because of increases in the cost of health insurance for retired employees. These increases are being partially offset by additional income of \$0.6 million associated with the System's earlier decision to share the development costs of the National Information Center (NIC) with the Reserve Banks.

The cost of goods and services necessary to maintain Board operations at the 1993 level is declining by \$1.8 million in 1994. One-time 1993 costs for automation and for facilities renovation, the Board's program (in conjunction with that of the Administra-

tion) to reduce administrative expenses, less routine facilities maintenance, and reimbursement by the Reserve Banks for use of the mainframe computer are helping to reduce expenses. These decreases outweigh normal price increases, the cost of space for training, higher communications costs associated with joining the System's communications network, and the expense of placing the Federal Reserve Regulatory Service (a publication detailing all Federal Reserve regulations) on diskette.

Initiatives

The 1994 budget provides \$3.2 million for initiatives, which is less than the \$3.8 million required in 1993. The budget funds new positions as well as enhancements to improve facilities and increase productivity. Investments in automation and communications are

Table 2.2

Positions Authorized at the Board of Governors, by Division or Office, 1992-94

Division or office	1992 actual	1993 estimate	1994 budget	Change	
				1992 to 1993	1993 to 1994
Board Members	38	38	40	0	2
Secretary	59	60	60	1	0
Legal	84	84	85	0	1
Research and Statistics	269	276	276	7	0
International Finance	106	110	110	4	0
Banking Supervision and Regulation	239	239	244	0	5
Human Resources Management	48	48	48	0	0
Concern ¹	22	22	22	0	0
Support Services	259	260	260	1	0
Controller	31	31	31	0	0
Consumer and Community Affairs	53	53	53	0	0
Staff Director for Management	7	11	13	4	2
Reserve Bank Operations and Payment Systems	119	126	127	7	1
Information Resources Management	270	271	273	1	2
Monetary Affairs	63	66	66	3	0
Special projects	1	0	0	-1	0
Total, Board operations	1,668	1,695	1,708	27	13
Office of Inspector General	22	32	32	10	0

1. EEO Concern positions managed by the Division of Human Resources Management.

necessary to continue implementation of the Board's ongoing automation-telecommunications plan, which has been critical in limiting the need to add staff as the Board's workload continues to grow.

Operations Budget by Object of Expense

Personnel expenses account for about 75 percent of the operations budget (table 2.3). The increase in the 1994 budget for salaries, \$3.3 million, includes increases for current personnel, the full-year salary costs in 1994 for positions added in 1993, and funding for the thirteen positions added for 1994. The increases for retirement and insurance costs cover increases for fringe benefits, including a major increase in the cost of health insurance for retired employees.

The 1994 budget for goods and services is \$1.3 million, or 3.6 percent, greater than estimated 1993 expenses. Telecommunications expenses are increasing as a result of the Board's participation in the System's standard communications network, Fednet. The increase for repairs and alterations is due to additional building modifications needed to bring the Board into compliance with the Americans with Disabilities Act. The budget for publications is increasing to allow for distribution of the Federal Reserve Regulatory Service on diskette. Travel expenses are continuing to increase owing to the high level of travel required to resolve supervision and regulation issues.

These increases, the cost of new training space, and other minor increases are being largely offset by one-time costs that were included in the 1993 budget but not in the 1994 budget and the additional income from the

FFIEC (Federal Financial Institutions Examination Council), the Reserve Banks, and other regulatory agencies for use of the Board's mainframe computer.

Operations Budget by Operational Area

The Board's operations budget supports four broadly defined areas of operation: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and System policy direction and oversight. Data on expenses and positions for each operational area for 1992-94 are shown in tables 2.4 and 2.5.

Monetary and Economic Policy

The 1994 budget for monetary and economic policy is \$61,467,000, an increase of \$1,446,000, or 2.4 percent, over estimated 1993 expenses. The relatively small increase for this operational area is, in part, associated with plans (in support of the Administration's cost-reduction program) to leave unfilled several authorized staff positions. The budget provides increased funding for automation initiatives to help the divisions that support this operational area meet a larger workload. Longer-term research, as well as analysis of current conditions, is greatly facilitated by the ready availability of high-powered desktop computers and associated software. Projects expected to contribute to a larger workload in 1994 include analyses of the impact of significant events in Europe, Latin America, and Asia on economic activity and exchange markets and the impact of international capital movements and developments at home and abroad on

U.S. exports and imports. Other analyses will focus on the regulatory structure of the government securities market, changes in the payment mechanism, derivative instruments and their effect on economic data, and the monetary aggregates.

Supervision and Regulation

The 1994 budget for supervision and regulation is \$51,404,000, an increase of \$3,302,000, or 6.9 percent, over estimated 1993 expenses. The costs of the National Information Center account for

Table 2.3

Operating Expenses of the Board of Governors, by Object of Expense, 1992-94

Dollars, except as noted

Object of expense	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
<i>Personnel</i>							
Salaries	79,624,065	87,430,000	90,724,562	7,805,935	9.8	3,294,562	3.8
Retirement	6,297,728	7,068,993	7,621,016	771,265	12.2	552,023	7.8
Insurance	6,701,386	7,334,322	8,050,090	632,936	9.4	715,768	9.8
Total	92,623,179	101,833,315	106,395,668	9,210,136	9.9	4,562,353	4.5
<i>Goods and services</i>							
Travel	3,866,956	4,598,177	4,803,382	731,221	18.9	205,205	4.5
Postage and expressage	1,116,289	1,233,334	1,257,500	117,045	10.5	24,166	2.0
Telecommunications ..	1,799,049	1,724,160	2,147,000	-74,889	-4.2	422,840	24.5
Printing and binding ..	1,102,529	1,168,398	1,169,200	65,869	6.0	802	.1
Publications	-487,119	-328,400	-189,100	158,719	32.6	139,300	42.4
Stationery and supplies	766,724	915,922	917,205	149,198	19.5	1,283	.1
Software	2,789,229	3,490,029	3,500,748	700,800	25.1	10,719	.3
Furniture and equipment	1,185,164	1,479,388	1,213,043	294,224	24.8	-266,345	-18.0
Rentals	-923,096	446,902	490,005	1,369,998	148.4	43,103	-9.6
Books and subscriptions	695,953	795,050	882,268	99,097	14.2	87,218	11.0
Utilities	1,805,394	1,842,000	1,979,000	36,606	2.0	137,000	7.4
Building repairs and alterations ...	2,071,284	1,402,475	1,581,050	-668,809	-32.3	178,575	12.7
Building repairs and maintenance ..	1,969,385	2,254,420	2,365,036	285,035	14.5	110,616	4.9
Contingency Processing Center expenses ..	263,578	181,000	167,900	-82,578	-31.3	-13,100	-7.2
Contractual professional services	4,491,285	5,855,926	5,598,394	1,364,641	30.4	-257,532	-4.4
Tuition/registration and membership fees	842,216	1,256,119	1,187,360	413,903	49.1	-68,759	-5.5
Subsidies and contributions	735,835	729,795	921,395	-6,040	-.8	191,600	26.3
Depreciation	6,010,708	6,611,806	7,169,491	601,098	10.0	557,685	8.4
All other	85,481	-479,058	-724,188	-564,539	-660.4	-245,130	-51.2
Total	30,186,844	35,177,443	36,436,689	4,990,599	16.5	1,259,246	3.6
Total, Board operations	122,810,023	137,010,758	142,832,357	14,200,735	11.6	5,821,599	4.2
Extraordinary items ...	3,147,319	598,000	980,000	-2,549,319	...	382,000	...
Office of Inspector General	1,930,243	2,868,304	3,007,774	938,061	48.6	139,470	4.9

part of the relatively large increase. Other major factors are the full-year costs of new positions added in 1993 to support enhanced supervision of foreign institutions and foreign branches of U.S. institutions; Systemwide actions to improve the examiner training program; and increases in foreign travel in connection with international banking and to meet demands stemming from the increased complexity of the banking system.

Also contributing to the larger supervision and regulation budget is the continuing need to develop and improve data and analytical tools to meet the requirements of the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). Finally, assessments for participation in the FFIEC and the Board's share of the production costs for the Uniform Bank Performance Report are contributing to the increase.

Services to Financial Institutions and the Public

The 1994 budget for oversight of Reserve Bank services to financial institutions

and the public is \$3,000,000, an increase of \$209,000, or 7.5 percent, over estimated 1993 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. The 1994 budget increase is due in part to the full-year costs of positions added in 1993 to enhance analysis and oversight of domestic and foreign large-value payment systems. Also contributing to the increase is an emphasis on analysis and oversight of private-sector, small-dollar electronic payment systems, including developments in automated teller machine (ATM) networks, point-of-sale (POS) networks, and electronic data interchange (EDI).

System Policy Direction and Oversight

The 1994 budget for System policy direction and oversight is \$26,961,000,

Table 2.4

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 1992-94¹

Thousands of dollars, except as noted

Type of expense	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
Monetary and economic policy	59,086	60,021	61,467	935	1.6	1,446	2.4
Supervision and regulation	39,100	48,102	51,404	9,002	23.0	3,302	6.9
Services to financial institutions and the public	2,250	2,791	3,000	541	24.0	209	7.5
System policy direction and oversight	22,374	26,097	26,961	3,723	16.6	864	3.3
Total, Board operations ...	122,810	137,011	142,832	14,201	11.6	5,821	4.2
Extraordinary items	3,147	598	980	-2,549	...	382	...
Office of Inspector General	1,930	2,868	3,008	938	48.6	140	4.9

1. Operating expenses include allocations for support and overhead.

an increase of \$864,000, or 3.3 percent, over estimated 1993 expenses. This operational area encompasses supervision of Board and Reserve Bank programs. The increase for 1994 is due mainly to the full-year costs of new positions added in 1993 and the costs of consulting services needed to assist in a scheduled review of FRAS (Federal Reserve Automation Services) electronic data processing operations.

Capital Budget

The Board's 1994 capital budget of \$7.1 million provides \$5.3 million for initiatives and \$1.8 million to complete phased projects approved in the 1993 budget. The budget covers expenditures to enhance office automation and telecommunications, improve facilities, and replace furniture and equipment.

The budget provides approximately \$3.1 million to improve automation capabilities, including implementation of the Administrative Systems Automation Project (ASAP), improvement of data storage equipment to extend the life of the mainframe computer, enhancement of records management hardware

and software, installation of upgrades to continue the migration to distributed processing, and expansion of the Board's premises-wide network to enhance the flow of an increasingly large volume of data between the mainframe and distributed networks.

The budget also includes approximately \$1.2 million to replace the Board's Federal Reserve Communication System (FRCS-80) equipment and to implement the System's standard communications network, Fednet. Approximately \$0.6 million in initiatives is included to provide for critical projects associated with maintaining the integrity of the Board's two main buildings; ongoing projects, which account for \$1.8 million, include improvement of the heating, ventilation, and air conditioning system in the Eccles Building and repair of the floors in the garage.

The remaining \$0.4 million is budgeted for smaller projects, including a training project intended to increase Board employment of physically disabled individuals, pilot projects to test new technology, purchase of equipment to enhance internal communications and

Table 2.5

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1992-94

Type of expense	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
Monetary and economic policy	417	436	436	19	4.6	0	.0
Supervision and regulation .	372	369	377	-3	-.8	8	2.2
Services to financial institutions and the public	22	21	21	-1	-4.5	0	.0
System policy direction and oversight	157	164	167	7	4.5	3	1.8
Support and overhead	700	705	707	5	.7	2	.3
Total, Board operations ...	1,668	1,695	1,708	27	1.6	13	.8
Office of Inspector General .	22	32	32	10	45.5	0	.0

improve storage of and access to data, and other miscellaneous smaller projects.

Trends in Expenses and Employment

The increase in the 1994 operations budget, 4.2 percent, is lower than the 8.4 percent average annual rate of increase over 1989-94 and the 6.4 percent average annual increase over 1984-94. The 1994 increase, the smallest percentage increase since 1987, is targeted mainly at maintaining operations at the 1993 level and meeting mandated enhancements of the Board's ongoing mission, particularly in support of the supervision and regulation operational

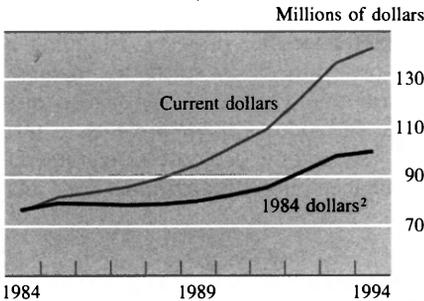
area. Charts 2.1-2.5 show trends for the period from 1984.

Adjusted by the GDP deflator, the 1994 increase in the operations budget becomes 1.8 percent. This compares favorably with the 2.7 percent average annual increase since 1984 and the 5.2 percent average annual increase since 1989. The higher average annual increase over the past five years has been due mainly to staff increases (mostly associated with the impact of FIRREA and FDICIA and problems in the banking industry), higher salaries resulting from the new compensation program, the acquisition of space to accommodate additional staff, and expanded training requirements for the supervision and regulation function.

The operations budget authorizes 1,708 staff positions, an increase of twenty-five over the number authorized in the 1993 budget. Twenty-eight of the authorized positions are longstanding positions for summer interns and local disadvantaged youths, and twenty-two of the remaining 1,680 positions provide support to the FFIEC for HMDA processing on a reimbursable basis. Ongoing changes in technology have had a

Chart 2.1

Operating Expenses of the Board of Governors, 1984-94¹

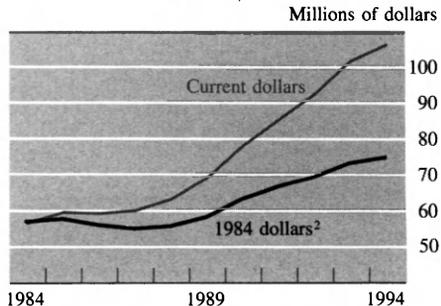


Year	Expenses in millions of	
	Current dollars	1984 dollars
1984	76.5	76.5
1985	82.0	79.1
1986	84.0	78.9
1987	86.2	78.4
1988	89.9	78.8
1989	95.3	80.0
1990	102.4	82.5
1991	109.8	85.4
1992	122.8 ³	91.7
1993	137.0	98.4
1994	142.8	100.2

1. Excludes the Office of Inspector General and extraordinary items. For 1993, estimate; for 1994, budget.
2. Calculated with the GDP price deflator.
3. Number slightly revised from earlier edition.

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1984-94¹



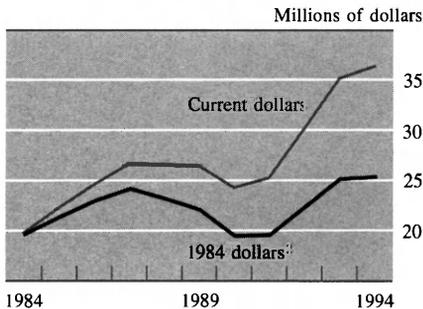
1. Excludes the Office of Inspector General. For 1993, estimate; for 1994, budget.
2. Calculated with the GDP price deflator.

great impact on the mix of work in central data processing operations and distributed processing areas, resulting in a significant decrease in staff positions. Since 1984, the number of positions has declined by seventy-eight in the Division of Information Resources Management and nineteen in the Division of Support Services. These decreases have been offset, however, by an increase of 107 positions in the Division of Banking Supervision and Regulation and nineteen in the Legal Division. The 1,680 positions authorized for 1994 represents a net increase of seventeen since 1984; over the same period, employment has increased by forty-eight, to a total of 1,636, as the number of vacant positions has declined.

Extraordinary Items

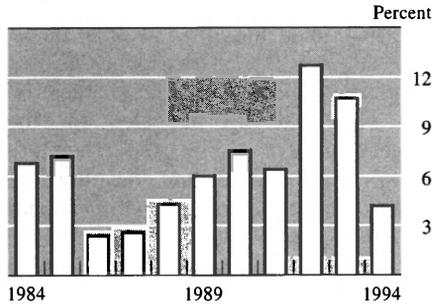
Three projects are covered by the Board's extraordinary items budget. One project is completion of a survey of small business finances begun in 1993. The data obtained from the survey will be used for many purposes, including satisfaction of the requirement of section 477 of the FDICIA that the Board

Chart 2.3
Expenses for Goods and Services at the Board of Governors, 1984-94¹



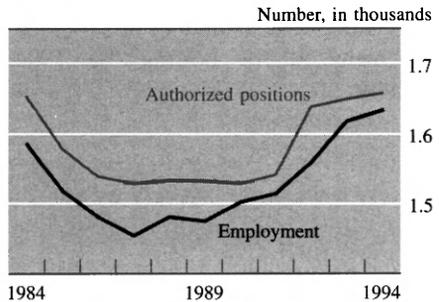
1. Excludes the Office of Inspector General and extraordinary items. For 1993, estimate; for 1994, budget.
2. Calculated with the GDP price deflator.

Chart 2.4
Annual Rate of Change in Operating Expenses of the Board of Governors, 1984-94¹



1. Excludes the Office of Inspector General and extraordinary items. For 1993, estimate; for 1994, budget.

Chart 2.5
Employment and Authorized Positions at the Board of Governors, 1984-94¹



Year	Employment	Authorized positions
1984	1,588	1,653
1985	1,521	1,580
1986	1,484	1,540
1987	1,457 ²	1,529
1988	1,484	1,534
1989	1,478	1,533
1990	1,505	1,529
1991	1,517	1,542 ²
1992 ²	1,563	1,639
1993 ²	1,621	1,650
1994	1,636	1,658

1. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General, which for 1994 number 28 and 32 positions respectively; 1994 figures also exclude 22 positions that provide support to the FFIEC for processing of HMDA data. For 1993, estimate; for 1994, budget.
2. Numbers slightly revised from earlier edition.

make data on credit for small businesses available annually. The 1994 cost of the survey is \$800,000.

A second project is a survey of consumer finances, which will gather information on household income, assets, debts, pensions, employment, use of financial services, and other characteristics. The \$80,000 budgeted for the project for 1994 will be used to begin to design the sample and develop the survey questionnaire. Assuming Board approval, the survey will be conducted in 1995, and additional funds will be budgeted at that time.

The third project covered by the extraordinary items budget is hosting of the 1994 meeting of the Governors of Central Banks of the American Continent. The site of this annual meeting rotates among the member countries; the United States acted as host in 1969 and 1983. Funds in the amount of \$100,000 are budgeted for hosting the 1994 meeting. ■