

Chapter 2

Board of Governors

The 2000–01 budget for the Board of Governors provides \$387.6 million for operations, \$7.8 million for extraordinary items (projects of a unique nature), and \$6.6 million for the Office of Inspector General. The Board has authorized 1,705 staff positions for operational areas and 29 positions for the Office of Inspector General; no positions are required for the extraordinary items. The total of 1,734 positions is a decrease of 16 positions from the number authorized at the end of 1999.

Overview of the Budget Process

On a biennial basis, the Board and its staff undertake a process that includes strategic planning for the next four years and formulation of a budget for the next two years. For the 2000–03 planning period and the 2000–01 budget period, the Board-level Committee on Board Affairs, assisted by a senior-level Staff Planning Group (SPG), guided the process.

Each division director, working with his or her oversight committee, examined the division's operations to see how the mission, organization, and resources needed to be adjusted to enable the Board to carry out its mission more efficiently and effectively. The process reaffirmed the Board's mission, readjusted priorities to accomplish the mission, and identified lower-priority work that could be eliminated to fund some of the needed programmatic increases.

Planning

The planning materials prepared by the division directors were reviewed by the SPG. Beyond the Board's mission and goals, which remain unchanged, six main, or overarching, issues were identified and used in shaping resource decisions reflected in the recommended budget objective approved by the Committee on Board Affairs and the Board:

- **Human resources and Board organization:** These critical areas affect operations through compensation that attracts, rewards, and retains staff; management succession; professional development; and coordination of employee skills to stay abreast of the growing complexity of operations and improvements in technology
- **Financial industry restructuring:** The Board must focus its response to changing circumstances in the financial industry, the increasing concentration of financial institutions, and the growing importance of international financial activity to the Board's mission¹
- **Assistance and support to foreign governments, central banks, and international organizations:** These activities continue to grow in importance, requiring a greater commitment of resources and making heavier

1. Because of the uncertain nature of the outcome at the time the budget was prepared, no major adjustments were included for financial reform legislation.

demands on the time of key staff members

- **Technology investments:** Up-to-date and fully functioning technology remains critical to maintaining efficient operations, implementing appropriate monetary policy decisions in an increasingly complex environment, and identifying supervisory risks in the financial sector and the actions needed to limit them
- **Communications with the public:** The Board must take advantage of technology, particularly the web, to provide materials to the public that explain Board actions, policies, and objectives, and to provide available data useful for research and public policy debates
- **Facilities:** The Board must maintain safe facilities that foster efficient operations; continue necessary repairs to the Eccles Building, which is now more than sixty years old; and devise a strategy to reduce the long-term cost of space for the staff.

In the course of planning, divisions identified areas in which they anticipated the need for increased resources over the next four years. Though many areas for investment were worthwhile, the Committee on Board Affairs focused on initiatives related to the above overarching issues. For example, nearly three-fourths of the budget increment is for human resources issues such as a larger pool for cash awards; a placeholder for the 2000 and 2001 merit increases, promotions and other salary adjustments; a reduced number of vacant positions; and increased training.

Board Operations

The budget reflects difficult decisions affecting current operations, provides

additional resources where operations need to respond to changes in the financial environment, and supports key efforts to continue to attract and retain the first-rate staff needed to accomplish the Board's mission.

The budget reflects continued pressure to keep pace with rapid and significant changes in the national economy and the world financial system. Technological change, which increases the risks to the economy and provides the tools to understand and limit those risks, is profoundly affecting the skills required of staff members, the automation and communication systems, and the workload of the Board. The budget also reflects the Board's efforts to ensure that consumers are treated fairly as the financial system changes and to improve the efficiency of Reserve Bank oversight.

These changes require additional resources; hence, the two-year budget increase averages 4.9 percent per year. The increase is largely for personnel costs, which account for nearly three-fourths of the Board's operating budget, and investments in technology such as the Banking Organization National Desktop (BOND) project.

Extraordinary Items

Inclusion of certain periodic or one-time expenses in the Board's operations budget can result in undue volatility in the size of the budget. Therefore, funds for such extraordinary items are set apart from the operations budget. For 2000–01, \$7.8 million in operating funds has been budgeted for three extraordinary items: two major economic surveys and final reports and closeout efforts to modify or replace software to ensure continuity of operations after the century-date change (CDC). Because the CDC efforts decreased sharply in the 2000–01 period, this budget is approximately

\$15.2 million less than in the current period.

Office of Inspector General

The 2000–01 budget of \$6.6 million for the Office of Inspector General (OIG) is separate from the Board's. The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's operating budget. In conformance with the statutory independence of the office, the OIG presents its budget directly to the Chairman of the Board of Governors for consideration by the Board.

Highlights of the Budget

The 2000–01 budget represents an increase of \$35.4 million over the 1998–99 approved operating plan, an average increase of 4.9 percent per year (table 2.1). The discussion below highlights the major components of this increase as well as the primary offsetting decreases.

The largest force driving the increase in the budget is personnel related. The total number of positions decreased by sixteen from the current period (table 2.2); however, positions eliminated by technology improvements tend to

Table 2.1

Operating Expenses of the Board of Governors, by Division, Office, or Special Account, 1998–99 to 2000–01

Thousands of dollars except as noted

Division, office, or special account	1998–99 estimate ¹	2000–01 budget	Change	
			Amount	Percent
Board Members	8,793	8,466	–327	–3.7
Secretary	8,709	9,391	682	7.8
Research and Statistics	58,446	60,318	1,872	3.2
International Finance	21,065	22,712	1,648	7.8
Monetary Affairs	18,395	19,871	1,477	8.0
Banking Supervision and Regulation	55,939	58,710	2,771	5.0
Consumer and Community Affairs	15,597	17,770	2,172	13.9
Legal	16,578	17,597	1,019	6.1
Reserve Bank Operations and Payment Systems	31,090	33,453	2,362	7.6
Staff Director for Management	1,439	709	–730	–50.7
Management	18,819	21,491	2,672	14.2
Support Services	54,801	58,354	3,533	6.5
Information Technology (IT)	69,551	78,066	8,515	12.2
Publications Committee	2,733	3,059	326	11.9
Special projects	9,675	18,013	8,338	86.2
IRM income account ²	–39,375	–40,368	–993	2.5
Total, Board operations	352,254	387,611	35,357	10.0³
Extraordinary items	23,010	7,847	...	...
Office of Inspector General	6,419	6,578	159	2.5

NOTE. Operating expenses reflect all redistributions for support and allocations for overhead, and they exclude capital outlays.

1. For 1998, actual; for 1999, the remainder of the 1998–99 operating plan.

2. Income from various Board divisions for use of central information resources management (IRM) resources.

3. Average annual change from 1999 to 2001 is 4.9 percent for Board operations and 1.2 percent for the Office of Inspector General.

... Not applicable.

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be less costly than those added to meet the changes outlined in the overarching issues. The placeholder amounts included in the budget for merit increases are significantly higher than the placeholders for the current biennium (4.4 percent and 4.0 percent in 2000 and 2001 respectively, compared with 3.8 percent and 3.5 percent in 1998 and 1999 respectively).² The larger amounts are in recognition of the need to keep the Board's salary structure aligned with appropriate labor markets.

2. The actual merit increases in 1998 and 1999 were 3.8 percent and 4.2 percent respectively. Savings from a larger number of vacant positions offset the added cost of the higher merit payments.

Higher grade levels are also affecting personnel costs. The higher grade levels reflect the market salaries for skills needed for more complex operations and special salary adjustments for critical professionals, such as financial economists. These increases also affect the benefit-related expenses that are tied to salary levels, such as the thrift plan and social security.

Finally, a portion of the increase comes from a one-time saving in 1999 from the buyout of the retiree health insurance plan and the transfer of the affected individuals' coverage to the Federal Employees Health Benefit Program.

In sum, increased spending on personnel services, including higher compen-

Table 2.2

Positions Authorized at the Board of Governors, by Division, Office, or Special Account, 1998–99 to 2000–01

Division, office, or special account	1998–99 authorized	2000–01 budget	Change
Board Members	34	34	0
Secretary	56	56	0
Research and Statistics	276	278	2
International Finance	115	119	4
Monetary Affairs	65	65	0
Banking Supervision and Regulation	224	220	-4
Consumer and Community Affairs	77	78	1
Legal	82	82	0
Reserve Bank Operations and Payment Systems	134	134	0
Staff Director for Management	2	2	0
Management	89	87	-2
Concern ¹	31	31	0
Support Services	231	213	-18
Information Technology (IT)	279	278	-1
Special projects	1	3	2
Subtotal	1,696	1,680	-16
Reimbursable IT support ²	25	25	0
Total, Board operations	1,721	1,705	-16
Office of Inspector General	29	29	0

1. EEO Concern (summer intern and youth) positions handled by the Management Division.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions

Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

sation packages designed to attract and retain highly skilled staff, account for \$25.9 million, or 73.3 percent, of the total budget increase.

The increase in the cost of goods and services, \$9.4 million, is largely due to increased operational expenses related to a number of projects. First, an additional \$3.0 million, or 8.5 percent of the total increase, funds further implementation of the BOND project. Second, rental expenses associated with the Eccles Building Infrastructure Enhancement project account for \$1.3 million, or 3.7 percent, of the overall increase. Finally, contractual expenses largely related to the pent-up demand for information technology services, restrained by Year 2000 policy decisions and the priority assigned to software remediation activities, are requiring an additional \$4.8 million. The remainder of the increase is associated with rate and volume adjustments.

Two major areas of budget decrease are in programs and depreciation. Program reductions worth \$2.2 million will allow added investment to support the overarching issues identified in planning. Depreciation expense declined \$2.9 million because of the change in the Board's capitalization policy that took effect on January 1, 1998. Other, smaller decreases come from changes in operations. For example, mailing costs are declining because of an improved ability to disseminate information to constituent groups through electronic distribution of documents and expansion of the Board's web site.

Risk Areas

Division directors identified items that could require significant additional resources during the 2000–01 period. These items are as follows:

- Passage of a financial modernization bill
- Some job families in which current compensation packages do not seem to be competitive in the job market
- Possible changes to the position vacancy rates used in developing the proposed salary budget and the resulting facility requirements should staffing patterns change
- A sharp increase in the rate of financial innovation.

Operations Budget by Division and Account Classification

The largest increase in the 2000–01 budget is in the area of personnel services (table 2.3). The budget for personnel services (salaries, retirement, and insurance) is \$25.9 million greater than the 1998–99 budget (an average increase of 4.9 percent per year). As the number of authorized positions is actually declining by sixteen during this period, this dollar increase is due to higher compensation levels necessary to attract and retain highly skilled staff members and a projected reduction in the number of vacant positions (table 2.2).

The 2000–01 budget for goods and services is \$9.4 million greater than the 1998–99 budget (also an average increase of 4.9 percent per year). Much of the increase in the area of goods and services is attributable to a \$4.8 million (9.8 percent per year) increase in contractual professional services associated with outsourcing the cafeteria services, purchasing additional economic data, providing technical assistance with the Daylight Overdraft Reporting and Pricing System, and obtaining contractual support for various information technology initiatives. Increases in programming efforts on the BOND project account for \$3.0 million.

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Table 2.3

Operating Expenses of the Board of Governors, by Account Classification, 1990–91 to 2000–01

Thousands of dollars except as noted

Account classification	1990–91	1992–93	1994–95	1996–97
<i>Personnel services</i>				
Salaries	143,130	169,265	190,210	211,005
Retirement	9,662	13,366	15,564	18,015
Insurance	11,429	14,407	16,862	19,196
Subtotal	164,222	197,039	222,637	248,215
<i>Goods and services</i>				
Travel	6,864	8,453	9,399	9,391
Postage and shipping	2,347	2,327	2,483	2,261
Telecommunications	3,364	3,665	4,168	4,367
Printing and binding	2,238	2,237	2,866	2,829
Publications	406	2,212	2,976	2,544
Stationery and supplies	1,668	1,635	1,755	1,756
Software	4,529	5,615	6,453	7,865
Furniture and equipment	1,521	2,442	2,497	2,568
Rentals	-282	3,156	7,202	8,648
Books and subscriptions	1,187	1,451	1,913	1,904
Utilities	3,388	3,683	4,145	3,995
Building repairs and alterations	1,945	3,402	3,273	2,996
Furniture and equipment repairs and maintenance	3,734	4,072	4,198	3,285
Contingency Processing Center	427	465	206	0
Contractual professional services	5,355	9,666	13,797	19,438
Tuition, registration, and membership fees ...	1,273	1,823	2,394	2,311
Subsidies and contributions	1,168	1,504	1,433	1,299
Depreciation	11,489	12,574	14,347	17,683
Other	-4,635	-8,309	-16,175	-18,502
Subtotal	47,986	62,074	69,330	76,638
Total, Board operations	212,208	259,113	291,967	324,853
Extraordinary items	0	0	0	4,196
Office of Inspector General	227	780	239	5,975

Partially offsetting these increases are program reductions in various areas throughout the Board. These include specialized activities in the Division of Banking Supervision and Regulation, cafeteria services, streamlined operations in the Management Division, attrition in the Office of the Secretary, and administrative reductions in the Division of Information Technology (table 2.1).

Savings in support-related areas include a reduction in postage and shipping expenses due to increased use of the Internet and intranet for information sharing, lower depreciation costs

following the 1998 raising of the capitalization threshold, and increased income from other government agencies and Reserve Banks for information technology services.

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 (tables 2.4 and 2.5).

Table 2.3
Continued

Thousands of dollars except as noted

Account classification	1998-99 estimate	2000-01 budget	Average annual change (percent)	
			1998-2001	1990-2001
<i>Personnel services</i>				
Salaries	224,267	246,103	4.8	5.6 ¹
Retirement	19,204	21,147	4.9	8.1
Insurance	14,313	16,444	7.2	3.7
Subtotal	257,784	283,694	4.9	5.6
<i>Goods and services</i>				
Travel	10,477	11,194	3.4	5.0
Postal and shipping	2,106	1,716	-9.7	-3.1
Telecommunications	5,484	6,164	6.0	6.2
Printing and binding	2,281	2,608	6.9	1.5 ¹
Publications	2,817	2,297	-9.7	. . . ¹
Stationery and supplies	1,972	2,062	2.3	2.1 ¹
Software	10,419	10,521	.5	8.8
Furniture and equipment	8,111	8,632	3.2	19.0 ²
Rentals	8,986	10,422	7.7	. . . ¹
Books and subscriptions	1,954	2,109	3.9	5.9
Utilities	4,418	4,619	2.2	3.1
Building repairs and alterations	3,145	3,635	7.5	6.5
Furniture and equipment repairs and maintenance	3,708	4,273	7.4	1.4
Contingency Processing Center	200	0	. . .	. . .
Contractual professional services	23,345	28,145	9.8	18.0
Tuition/registration and membership fees	3,000	3,412	6.6	10.4
Subsidies and contributions	1,418	1,482	2.2	2.4
Depreciation	20,865	17,939	-7.3	4.6
Other	20,234	17,312	-7.5	14.1
Subtotal	94,470	103,917	4.9	8.0
Total, Board operations	352,254	387,611	4.9	6.2
Extraordinary items	23,010	7,847	. . .	. . .
Office of Inspector General	6,419	6,758	1.2	40.0

1. Accounting for income in performance reports changed during the period. Until 1991, income was netted against expenses in the appropriate cost center and program; since then, income has been captured in the "all other" account. The change has had only a minor effect on the 1990-2001 percentage change in the accounts for salaries, printing and binding, and stationery and supplies, but in the accounts for publications and rentals,

it has made a measurement of the 1990-2001 change meaningless.

2. Beginning in 1998 the threshold for capitalizing and depreciating a purchase rather than expensing it rose from \$1,000 to \$5,000. The data for 1996-97 have been adjusted, but accurate adjustments for earlier years are not possible.

. . . Not applicable.

Monetary and Economic Policy

The 2000-01 budget for monetary and economic policy is \$163.9 million, an increase of \$12.2 million, or an average of 4.0 percent per year more than the 1998-99 operating plan. Activities in this operational area include the Board's

monitoring and analysis of developments in the money and credit markets, the setting of reserve requirements, the approval of changes in the discount rate, and other activities related to managing the nation's monetary policy. The entire increase is associated with higher costs of personnel, including the addi-

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tion of four positions in the Division of International Finance to meet the expanding need for risk assessment and analysis.

Beyond the increase tied to personnel services are initiatives in the Division of Research and Statistics to collect more

data related to developments in financial markets; gain a better understanding of embodied technological change; expand the sectoral productivity database; and further assess credit bureau data. These initiatives are all funded by reductions, primarily in automation support.

Table 2.4

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 1998–99 to 2000–01

Thousands of dollars except as noted

Activity	1998–99 estimated	2000–01 budget	Change	
			Amount	Percent
Monetary and economic policy	151,633	163,878	12,245	8.1
Supervision and regulation	129,622	148,864	19,242	14.8
Services to financial institutions and the public	6,811	7,907	1,096	16.1
System policy direction and oversight	64,187	66,962	2,775	4.3
Total, Board operations	352,253	387,611	35,358	10.0
Extraordinary items	23,010	7,847	...	...
Office of Inspector General	6,419	6,578	159	2.5

NOTE. See notes to table 2.1.

... Not applicable.

Table 2.5

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1998–99 to 2000–01

Activity	1998–99 estimate	2000–01 budget	Change
Monetary and economic policy	426	432	6
Supervision and regulation	384	381	-3
Services to financial institutions and the public ..	22	22	0
System policy direction and oversight	173	173	0
Support and overhead	691	672 ¹	-19
Subtotal	1,696	1,680	-16
Reimbursable IT support ²	25	25	0
Total, Board operations	1,721	1,705	-16
Office of Inspector General	29	29	0

1. Includes positions for 17 youth, 10 worker trainees, and 4 summer interns.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions

Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

Supervision and Regulation

The 2000–01 budget for supervision and regulation is \$148.9 million, an increase of \$19.2 million, or an average of 7.2 percent per year more than the 1998–99 operating plan. Activities in this area include working with other federal and state financial authorities to ensure safety and soundness in the operation of financial institutions, stability in the financial markets, and fair and equitable treatment of consumers in their financial transactions. The budget, as described below, enhances supervisory activities such as continuous monitoring, inspection, and examination of banking organizations to assess their condition and their compliance with relevant laws and regulations.

The percentage increase for this operational area is greater than the percentage for the overall budget. Besides the normal factors affecting compensation in each of the operational areas, new work approved in the current budget period, such as the BOND project in the Division of Banking Supervision and Regulation, is having a significant effect. The processing of applications will be enhanced through investment in the Application Information System.

This operational area has also been successful in filling many positions that were vacant for long periods in 1998 following the voluntary retirement incentive program. It has been able to do so in part because of compensation adjustments within key job families to improve retention and assist with recruiting. Thus, in the Division of Banking Supervision and Regulation, the vacancy rate has decreased. The number of positions in the Consumer Affairs area has increased, and the investment in software to better analyze data gathered under the Community Reinvestment Act and the

Home Mortgage Disclosure Act continues to be substantial.

Services to Financial Institutions and the Public

The 2000–01 budget for oversight of Reserve Bank services to financial institutions and the public is \$7.9 million, an increase of \$1.1 million, or an average of 7.7 percent a year more than the 1998–99 operating plan. This operational area provides support to, and oversight of, the Federal Reserve Banks and Branches—specifically, evaluation of the operational and pricing performance for the check-payment activities of the Reserve Banks; oversight of the electronic payments mechanism; and annual evaluation of the Federal Reserve System’s currency, coin, and food coupon operations. The increase reflects new software development for managing the currency operations and a lower projected rate of vacancies in key programs analyzing payment system risk.

System Policy Direction and Oversight

The 2000–01 budget for System policy direction and oversight is \$67.0 million, an increase of \$2.8 million, or an average of 2.1 percent per year more than the 1998–99 operating plan. This operational area covers oversight and direction of Board and Reserve Bank programs. It includes programs that directly support Board members in carrying out their oversight function for Reserve Bank operations, budgeting and accounting, financial examinations, audit and operations reviews, and automation and communications. Salary increases are the largest single factor in the higher costs of this area, which are tempered by

lower costs associated with changes in oversight policy.

Capital Budget

The Board's 2000–01 capital budget is \$23.8 million, an increase of \$3.8 million from the 1998–99 operating plan. Of this total, \$12.0 million is for regular operations, an increase of \$0.4 million above the 1998–99 level. This portion of the budget supports continued improvements in office automation and major upgrades to the information infrastructure, including a major cable upgrade to enhance bandwidth and communication speeds. Funds are also provided for the restoration of aging facilities such as restrooms; mail distribution and central file storage systems; heating, ventilation, and air conditioning systems; and other, smaller facilities projects.

The remaining \$11.8 million is for continuation of the Eccles Building Infrastructure Enhancement Project. The \$3.4 million increase over expenditures in 1998–99 is due to the phased nature of the project, which began in July 1999. The project, which is extending the building's useful life, enhancing fire safety systems, replacing piping and voice and data cabling, and making other related repairs, is scheduled for completion in 2002.

Positions

The overall position authorization for the Board decreased by 16, primarily in overhead and support areas, from the approved 1998–99 budget, to a total of 1,705 positions.

Reductions in support-related areas include a significant number in Support Services due to faster-than-anticipated consolidation of the duplicating, publications, and cafeteria functions, reflecting reorganizations and changes in business

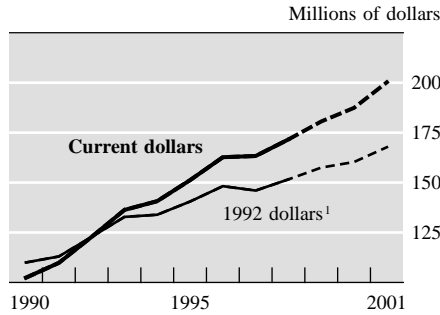
practices to increase efficiency. Reductions are projected for the Division of Information Technology and the Management Division as part of their planning initiatives to increase efficiency and effectiveness. Finally, reductions in the Division of Banking Supervision and Regulation have been proposed to accommodate shifting priorities.

These decreases are partially offset by an increase of seven positions in the core mission areas. Two positions have been added in the Division of Research and Statistics to expand its analysis of financial markets data and to continue development of a sectoral productivity database. Four economist positions have been added in the Division of International Finance to meet the expanding need for risk assessment and analysis in the monetary policy and research areas to enable the Board to keep current on the rapid changes in the financial industry both domestically and abroad. An analyst position has been added in the Division of Consumer and Community Affairs to handle a growing volume of consumer complaints and a shift to a more risk-focused approach to consumer compliance examinations.

Trends in Expenses and Employment

The rate of increase in the 2000–01 budget, 4.9 percent on an annual basis, is slightly higher than the 4.1 percent rate in the 1998–99 biennium. The projected annual rate of increase over the 1990–91 to 2000–01 period averages 6.2 percent (table 2.3; see also charts 2.1–2.5). The main cause of the larger increase over the entire period is the net increase in positions, higher salary and benefit costs, and an increasingly sophisticated automation system required to manage a sharp increase in the volume and complexity of the Board's

Chart 2.1
Operating Expenses of the Board of Governors, 1990–2001



Year	Millions of dollars	
	Current dollars	1992 dollars ¹
1990	102.4	110.0
1991	109.8	113.0
1992	122.8	122.8
1993	136.3	132.8
1994	140.7	133.9
1995	151.2	140.5
1996	162.7	148.2
1997	163.3	146.0
1998	171.6	151.6
1999	180.6	157.5
2000	187.4	160.3
2001	200.2	167.7

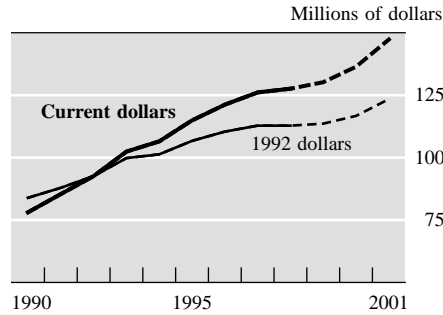
NOTE. For 1999, estimate; for 2000–01, budget. Excludes the Office of Inspector General and extraordinary items. The annual values for 1998–99 and 2000–01 are the approximate calendar-year effects of the respective two-year budgets.

1. Calculated with the GDP price deflator.

workload. The higher increase from the last budget results from a larger merit component (4.4 percent for 2000 versus 3.5 percent for 1999), major software development costs for the supervision and regulation function, and a smaller volume of savings from administrative actions and programmatic reductions.

Approximately three-fourths of the Board’s operating expenses are for personnel; consequently, analysis of trends is heavily tied to staffing levels. From 1990 to 2001, the number of authorized positions for Board opera-

Chart 2.2
Expenses for Personnel Services at the Board of Governors, 1990–2001



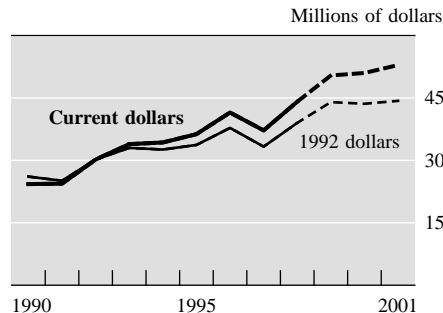
NOTE. See notes to chart 2.1.

tions rose from 1,570 to 1,705, a net increase of 135, or 8.6 percent.

Automation changes to provide sophisticated analytical tools to staff members, manage larger data sets, and provide information to the public over the Board’s web site required a net increase of 32 positions over the 1990–2001 period. Automation—accompanied by a decline in clerical tasks and a sharp increase in positions requiring higher technical and analytical skills—also resulted in major changes in the composition of the Board’s staff.

Changes in banking, frequently associated with automation enhancements,

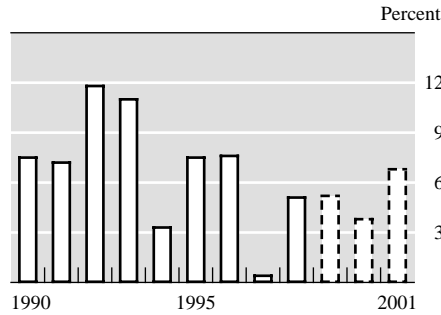
Chart 2.3
Expenses for Goods and Services at the Board of Governors, 1990–2001



NOTE. See notes to chart 2.1.

Chart 2.4

Annual Change in Operating Expenses of the Board of Governors, 1990–2001



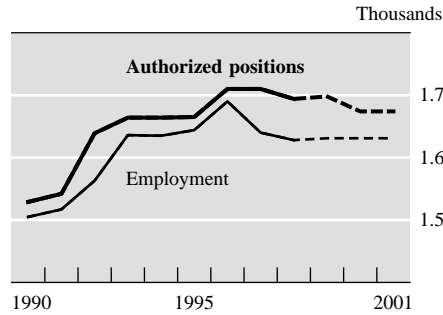
NOTE. Year-end data. see also general note to chart 2.1.

increased the complexity of safety and soundness activities and caused an increase of 51 positions over the period. Increased attention to consumer issues, including collection and analysis of data collected under the Home Mortgage Disclosure Act and Community Reinvestment Act, added 35 positions. Increasing complexity of monetary policy issues resulted in an increase of 34 positions. Oversight of Reserve Bank operations became more complex resulting in an increase of 12 positions. These increases were partially offset by a decline of 29 administrative and support positions resulting from capital investments, improved efficiency, and outsourcing.

While the number of positions at the Board has fluctuated during the 1990 to 2001 period, the salary budget (not including retirement and insurance benefits) has remained relatively stable at roughly 65 percent of operating expenses. The portion of operating expenses devoted to retirement and insurance has decreased approximately 1 percentage point over the period as a result of administrative actions to limit these costs for health insurance and other benefits.

Chart 2.5

Employment and Authorized Positions at the Board of Governors, 1990–2001



Year	Employment	Authorized positions
1990	1,505	1,529
1991	1,517	1,542
1992	1,563	1,639
1993	1,636	1,664
1994	1,635	1,664
1995	1,644	1,665
1996	1,686	1,712
1997	1,638	1,713
1998	1,628	1,694
1999	1,631	1,698
2000	1,631	1,674
2001	1,631	1,674

NOTE. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General. These positions number 60 for 2000 and 2001. Includes positions that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

Extraordinary Items

The Board's extraordinary items budget provides \$7.8 million for three projects. The first, a survey of consumer finances (\$5.5 million), will provide financial data for various policy analysis and monetary policy purposes. This effort reflects the Board's interest in improving the quality of economic data by obtaining information on the income, assets, debts, pensions, employment, use of financial services, savings behavior,

and other characteristics of U.S. households. Cross-categorization of the data will allow important statistical observations useful in a wide variety of economic studies.

The second project is the completion of a survey of small business finances (NSSBF), begun in 1999 for data as of year-end 1998 (\$1.2 million). The purpose of the survey is to gather data from small businesses on their financial relationships, credit experiences, lending terms and conditions, income and balance sheet information, location and types of financial institutions used, and other firm characteristics. The NSSBF is used in analyzing the competitive effect of bank mergers, in benchmarking other data series (such as the noncorporate sector of the flow-of-funds statistics), and in writing the quinquennial small

business report mandated by section 227 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. It is also used for research and policy analysis of a wide variety of issues in small business finances.

Last, the extraordinary items budget provides \$1.2 million to complete bringing the Board's software into compliance with the century date change. These funds are for completion of system monitoring over the leap year day (February 29); work related to the event management activities in January; and decommissioning test facilities and equipment that are no longer needed. Over the past three years, funds for this project, which have totaled \$17.6 million, have been used to remediate, test, and implement Year 2000 versions of the Board's information systems. ■

Chapter 2

Board of Governors

As noted in the introduction to this book, the budget for the Board of Governors covers a two-year period. During 2000, the first year of the current budget period, a number of minor reallocations were made within the 2000–01 approved operations budget. The operations budget was also increased \$2.2 million to fund larger-than-budgeted staff merit pay increases and to enhance security procedures for the Chairman. An additional \$2.7 million was added to the capital budget for an emergency generator to enhance the Board's ability to operate in emergency situations.

The revised 2000–01 budget for the Board of Governors provides \$389.8 million for operations, \$7.8 million for extraordinary items (projects of a unique nature), and \$6.6 million for the Office of Inspector General. The Board has authorized a revised staff position count of 1,699 for operational areas and 29 positions for the Office of Inspector General; no positions are required for the extraordinary items function. The total of 1,728 positions is a decrease of 12 positions from the number authorized at the end of 1999.

As identified by division directors during the planning process, four items may require significant additional funding. Costs associated with the passage of the financial modernization bill (personnel services, travel, and the like) are being funded through a combination of work reallocation and staff overtime and, possibly, an increase in the Board's operations budget. Position vacancy rates are lower than past trends, adding costs. In addition, studies have determined that compensation packages in some

job families are insufficient to keep the Board competitive in the job market.

Overview of the Budget Process

On a biennial basis, the Board and its staff undertake a process that includes strategic planning for the next four years and formulation of a budget for the next two years. For the 2000–03 planning period and the 2000–01 budget period, the Board-level Committee on Board Affairs, assisted by a senior-level Staff Planning Group (SPG), guided the process.

Each division director, working with his or her oversight committee, examined the division's operations to see how the mission, organization, and resources needed to be adjusted to enable the Board to carry out its mission more efficiently and effectively. The process reaffirmed the Board's mission, readjusted priorities to accomplish the mission, and identified lower-priority work that could be eliminated to fund some of the needed programmatic increases.

Planning

The planning materials prepared by the division directors were reviewed by the SPG. In support of the Board's mission and goals, which remain unchanged, six main, or overarching, issues were identified and used in shaping resource decisions reflected in the recommended budget objective approved by the Committee on Board Affairs and the Board:

- *Human resources and Board organization.* These critical areas affect operations through the following: compen-

sation that attracts, rewards, and retains staff; management succession; professional development; and coordination of employee skills to stay abreast of the growing complexity of operations and improvements in technology.

- *Financial industry restructuring.* The Board must focus its response to changing circumstances in the financial industry, the increasing concentration of financial institutions, and the growing importance of international financial activity to the Board's mission.¹
- *Assistance and support to foreign governments, central banks, and international organizations.* These activities continue to grow in importance, requiring a greater commitment of resources and making heavier demands on the time of key staff members.
- *Technology investments.* Up-to-date and fully functioning technology remains critical to maintaining efficient operations, implementing appropriate monetary policy decisions in an increasingly complex environment, and identifying supervisory risks in the financial sector and the actions needed to limit them.
- *Communications with the public.* The Board must take advantage of technology, particularly the web, to provide materials to the public that explain Board actions, policies, and objectives and to provide available data useful for research and public policy debates.
- *Facilities.* The Board must maintain safe facilities that foster efficient operations; continue necessary repairs to the Eccles Building, which is now

more than sixty years old; and devise a strategy to reduce the long-term cost of space for the staff.

In the course of planning, divisions identified areas in which they anticipated the need for increased resources over the next four years. Though many areas for investment were worthwhile, the Committee on Board Affairs focused on initiatives related to the above overarching issues. For example, nearly three-fourths of the budget increment is for human resources issues such as a larger pool for cash awards; funding for the 2000 and 2001 merit increases, promotions, and other salary adjustments; a reduced number of vacant positions; and increased training.

Board Operations

The approved budget reflects difficult decisions affecting current operations, provides additional resources where operations need to respond to changes in the financial environment, and supports key efforts to continue to attract and retain the first-rate staff needed to accomplish the Board's mission.

The budget reflects continued pressure to keep pace with rapid and significant changes in the national economy and the world financial system. Technological change, which increases the risks to the economy and provides the tools to understand and limit those risks, is profoundly affecting the skills required of staff members, the automation and communication systems, and the workload of the Board. The budget also reflects the Board's efforts to ensure that consumers are treated fairly as the financial system changes and to improve the efficiency of Reserve Bank oversight.

These changes required additional resources; hence, the revised two-year budget increase averages 6.3 percent per

1. Because of the uncertain nature of the outcome at the time the budget was prepared, no major adjustments were included for financial reform legislation.

year. The increase is largely for personnel costs, which account for nearly three-fourths of the Board's operating budget, and investments in technology such as the Banking Organization National Desktop (BOND) project.

Extraordinary Items

Inclusion of certain periodic or one-time expenses in the Board's operations budget can result in undue volatility in the size of the budget. Therefore, funds for such extraordinary items are set apart from the operations budget. For 2000–01, \$7.8 million in operating funds has been budgeted for three extraordinary items: two major economic surveys and final reports and closeout efforts to modify or replace software to ensure continuity of operations after the century date change (CDC). Because the CDC efforts have been decreasing sharply over the 2000–01 period, this budget is approximately \$15.2 million less than in the 1998–99 budget.

Office of Inspector General

The 2000–01 budget of \$6.6 million for the Office of Inspector General (OIG) is separate from the Board's. The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's operating budget. In conformance with the statutory independence of the office, the OIG presents its budget directly to the Chairman of the Board of Governors for consideration by the Board.

Highlights of the Budget

The Board's 2000–01 operations budget represents an increase of \$44.6 million over 1998–99 actual expenses, an average increase of 6.3 percent per year

(table 2.1). The discussion below highlights the major components of this increase as well as the primary offsetting decreases.

The largest force driving the increase in the budget is personnel related. The total number of positions decreased by 12 from the 1998–99 (table 2.2); however, positions eliminated by technology improvements tend to be less costly than those added to meet the changes outlined in the overarching issues. The placeholder amounts included in the budget for merit increases were significantly higher than the placeholders for the 1998–99 biennium (4.4 percent and 4.0 percent in 2000 and 2001 respectively, compared with 3.8 percent and 3.5 percent in 1998 and 1999 respectively).² The larger amounts were in recognition of the need to keep the Board's salary structure aligned with appropriate labor markets.

Higher grade levels are also affecting personnel costs. The higher grade levels reflect the market salaries for skills needed for more complex operations and special salary adjustments for critical professionals, such as financial economists. These increases also affect the benefit-related expenses that are tied to salary levels, such as the thrift plan and social security.

Finally, a portion of the increase comes from a one-time saving in 1999 from changes to the retiree health insurance plan and the transfer of the affected individuals' coverage to the Federal Employees Health Benefit Program.

In sum, increased spending on personnel services, including higher compensation packages designed to attract and

2. The actual merit increases in 1998 and 1999 were 3.8 percent and 4.2 percent respectively. The actual merit increases for 2000 and 2001 were 4.8 percent and 4.75 percent respectively. A portion of the unbudgeted increase was absorbed internally, and the balance was added to the budget.

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retain highly skilled staff, account for \$29.7 million, or 66.7 percent, of the total budget increase.

The increase in the cost of goods and services, \$14.9 million, is largely due to increased operating expenses related to a number of projects. First, an additional \$3.0 million, or 6.7 percent of the total increase, funds further implementation of the BOND project. Second, rental expenses associated with the Eccles Building Infrastructure Enhancement Project account for \$1.3 million, or 2.9 percent, of the overall increase. Finally, contractual expenses largely related to the pent-up demand for information technology services, restrained by Year 2000 policy decisions

and the priority assigned to software remediation activities, are requiring an additional \$4.8 million. The remainder of the increase is associated with rate and volume adjustments as well as lower expenses in the 1998–99 time period.

Two major areas of budget decrease are in programs and depreciation. Program reductions worth \$2.2 million will allow added investment to support the overarching issues identified in planning. Depreciation expense declined \$2.3 million because of the change in the Board's capitalization policy that took effect on January 1, 1998. Other, smaller decreases come from changes in operations. For example, mailing costs

Table 2.1

Operating Expenses of the Board of Governors, by Division, Office, or Special Account, 1998–99 and 2000–01

Thousands of dollars except as noted

Division, office, or special account	1998–99	2000–01 (revised budget)	Change	
			Amount	Percent
Board Members	8,282	8,480	197	2.4
Secretary	8,030	9,412	1,382	17.2
Research and Statistics	56,543	61,127	4,585	8.1
International Finance	20,297	22,741	2,444	12.0
Monetary Affairs	17,427	19,249	1,822	10.5
Banking Supervision and Regulation	53,713	58,867	5,154	9.6
Consumer and Community Affairs	15,148	17,813	2,665	17.6
Legal	15,296	17,643	2,347	15.3
Reserve Bank Operations and Payment Systems	30,547	32,435	1,888	6.2
Staff Director for Management	1,469	2,620	1,151	78.3
Management	19,851	22,079	2,229	11.2
Support Services	54,992	58,121	3,129	5.7
Information Technology	69,338	78,220	8,881	12.8
Publications Committee	2,574	3,059	485	18.8
Special projects	9,226	18,134	8,908	96.6
IRM income account ¹	-37,556	-40,242	-2,686	7.2
Total, Board operations	345,177	389,758	44,581	12.9²
Extraordinary items	20,401	7,847	-12,554	...
Office of Inspector General	5,640	6,617	977	17.3

NOTE. Operating expenses reflect all redistributions for support and allocations for overhead, and they exclude capital outlays.

1. Income from various Board divisions for use of central information resources management (IRM) resources.

2. Average annual change from 1999 through 2001 is 6.3 percent for Board operations and 8.3 percent for the Office of Inspector General.

... Not applicable.

Table 2.2

Positions Authorized at the Board of Governors, by Division, Office, or Special Account, 1998–99 and 2000–01

Division, office, or special account	1998–99 (authorized)	2000–01 (revised budget)	Change
Board Members	34	35	1
Secretary	56	56	0
Research and Statistics	276	279	3
International Finance	115	119	4
Monetary Affairs	65	65	0
Banking Supervision and Regulation	224	220	-4
Consumer and Community Affairs	76	78	2
Legal	82	82	0
Reserve Bank Operations and Payment Systems	135	128	-7
Staff Director for Management	3	11	8
Management	89	89	0
Concern ¹	31	31	0
Support Services	216	198	-18
Information Technology (IT)	281	280	-1
Special projects	3	3	0
Subtotal	1,686	1,674	-12
Reimbursable IT support ²	25	25	0
Total, Board operations	1,711	1,699	-12
Office of Inspector General	29	29	0

1. EEO Concern—summer intern and youth positions handled by the Management Division.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions

Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

are declining because of an improved ability to disseminate information to constituent groups through electronic distribution of documents and expansion of the Board's web site.

Risk Areas

When budgets were prepared in mid-1999, division directors identified items that could require significant additional resources during the 2000–01 period. These potential items were as follows:

- Passage of a financial modernization bill (enacted in late 1999)
- Some job families in which current compensation packages did not seem to be competitive in the job market

- Possible changes to the position vacancy rates used in developing the proposed salary budget and the resulting facility requirements should staffing patterns change
- A sharp increase in the rate of financial innovation.

Operations Budget by Division and Account Classification

The largest increase in the 2000–01 revised budget is in the area of personnel services (table 2.3). The proposed budget for personnel services (salaries, retirement, and insurance) is \$29.7 million greater than the 1998–99 budget (an average increase of 5.6 percent per year). As the number of authorized posi-

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Table 2.3

Operating Expenses of the Board of Governors, by Account Classification, 1990–91 to 2000–01

Thousands of dollars except as noted

Account classification	1990–91	1992–93	1994–95	1996–97
<i>Personnel services</i>				
Salaries	143,130	169,265	190,210	211,005
Retirement	9,662	13,366	15,564	18,015
Insurance	11,429	14,407	16,862	19,196
Subtotal	164,222	197,039	222,637	248,215
<i>Goods and services</i>				
Travel	6,864	8,453	9,399	9,391
Postage and shipping	2,347	2,327	2,483	2,261
Telecommunications	3,364	3,665	4,168	4,367
Printing and binding	2,238	2,237	2,866	2,829
Publications	406	2,212	2,976	2,544
Stationery and supplies	1,668	1,635	1,755	1,756
Software	4,529	5,615	6,453	7,865
Furniture and equipment	1,521	2,442	2,497	2,568
Rentals	-282	3,156	7,202	8,648
Books and subscriptions	1,187	1,451	1,913	1,904
Utilities	3,388	3,683	4,145	3,995
Building repairs and alterations	1,945	3,402	3,273	2,996
Furniture and equipment repairs and maintenance	3,734	4,072	4,198	3,285
Contingency Processing Center	427	465	206	0
Contractual professional services	5,355	9,666	13,797	19,438
Tuition, registration, and membership fees ...	1,273	1,823	2,394	2,311
Subsidies and contributions	1,168	1,504	1,433	1,299
Depreciation	11,489	12,574	14,347	17,683
Other	-4,635	-8,309	-16,175	-18,502
Subtotal	47,986	62,074	69,330	76,638
Total, Board operations	212,208	259,113	291,967	324,853
Extraordinary items	0	0	0	4,196
Office of Inspector General	227	780	239	5,975

tions is actually declining by 12 over this period, this dollar increase is due to higher compensation levels necessary to attract and retain highly skilled staff members and a projected reduction in the number of vacant positions, particularly in the supervision and regulation function (table 2.2).

The 2000–01 budget for goods and services is \$14.9 million greater than 1998–99 actual expenses (an average increase of 6.3 percent per year). Much of the increase in the area of goods and services is attributable to a \$3.8 million (7.5 percent per year) increase in contractual professional services associ-

ated with outsourcing the cafeteria services, purchasing additional economic data, providing technical assistance with the Daylight Overdraft Reporting and Pricing System, and obtaining contractual support for various information technology initiatives. Increases in programming efforts on the BOND project account for \$3.0 million.

Partially offsetting these increases are program reductions in various areas throughout the Board. These include specialized activities in the Division of Banking Supervision and Regulation, cafeteria services, streamlined operations in the Management Division,

Table 2.3
Continued

Thousands of dollars except as noted

Account classification	1998–99	2000–01 (revised budget)	Average annual change (percent)	
			1998–2001	1990–2001
<i>Personnel services</i>				
Salaries	222,203	248,394	5.7	5.7 ¹
Retirement	19,708	21,214	3.8	8.2
Insurance	14,463	16,475	6.7	3.7
Subtotal	256,374	286,083	5.6	5.7
<i>Goods and services</i>				
Travel	10,823	11,314	2.2	5.1
Postal and shipping	1,706	1,716	.3	-3.1
Telecommunications	6,120	6,164	.4	6.2
Printing and binding	2,188	2,608	9.2	1.5 ¹
Publications	2,338	2,297	-9	18.9 ¹
Stationery and supplies	1,831	2,062	6.1	2.1 ¹
Software	8,349	10,509	12.2	8.8
Furniture and equipment	7,607	8,576	6.2	18.9 ²
Rentals	8,884	10,422	8.3	. . . ¹
Books and subscriptions	1,765	2,109	9.3	5.9
Utilities	4,429	4,619	2.1	3.1
Building repairs and alterations	2,881	3,635	12.3	6.5
Furniture and equipment repairs and maintenance	3,517	4,273	10.2	1.4
Contingency Processing Center	181	0	. . .	-99.9
Contractual professional services	24,421	28,226	7.5	18.1
Tuition, registration, and membership fees	2,672	3,427	13.2	10.4
Subsidies and contributions	1,524	1,482	-1.4	2.4
Depreciation	20,204	17,939	-5.8	4.6
Other	-22,637	-17,702	-11.6	14.3
Subtotal	88,803	103,675	8.0	8.0
Total, Board operations	345,177	389,758	6.3	6.3
Extraordinary items	20,401	7,847	. . .	. . .
Office of Inspector General	5,640	6,617	8.3	40.1

1. The method of accounting for income in performance reports changed during the period. Until 1991, income was netted against expenses in the appropriate cost center and program; since then, income has been captured in the "all other" account. The change has had only a minor effect on the 1990–2001 percentage change in the accounts for salaries, printing and binding, and stationery and supplies, but in the accounts for publications and

rentals, it has made a measurement of the 1990–2001 change much less meaningful.

2. Beginning in 1998 the threshold for capitalizing and depreciating a purchase rather than expensing it rose from \$1,000 to \$5,000. The data for 1996–97 have been adjusted, but accurate adjustments for earlier years are not possible.

. . . Not applicable.

attrition in the Office of the Secretary, and administrative reductions in the Division of Information Technology (table 2.1).

Savings in support-related areas include a reduction in postage and shipping expenses due to increased use

of the Internet and intranet for information sharing, lower depreciation costs following the 1998 raising of the capitalization threshold, and increased income from other government agencies and Reserve Banks for information technology services.

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

(tables 2.4 and 2.5). Overhead is allocated to each of these functions, and the financial data include the allocation.

Monetary and Economic Policy

The 2000–01 revised budget for monetary and economic policy is \$164.8 mil-

Table 2.4

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 1998–99 and 2000–01

Thousands of dollars except as noted

Activity	1998–99	2000–01 (revised budget)	Change	
			Amount	Percent
Monetary and economic policy	145,612	164,806	19,194	13.2
Supervision and regulation	129,949	149,757	19,808	15.2
Services to financial institutions and the public	6,026	7,942	1,916	31.8
System policy direction and oversight	63,590	67,253	3,663	5.8
Total, Board operations	345,177	389,758	44,581	12.9¹
Extraordinary items	20,401	7,847	–12,554	...
Office of Inspector General	5,640	6,617	977	17.3

NOTE. See general note to table 2.1.
... Not applicable.

1. Average annual change from 1999 through 2001 is 6.3 percent for Board operations and 8.3 percent for the Office of Inspector General.

Table 2.5

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1998–99 and 2000–01

Activity	1998–99	2000–01 (revised budget)	Change
Monetary and economic policy	426	433	7
Supervision and regulation	383	381	–2
Services to financial institutions and the public ..	22	22	0
System policy direction and oversight	174	173	–1
Support and overhead ¹	681	665	–16
Subtotal	1,686	1,674	–12
Reimbursable IT support ²	25	25	0
Total, Board operations	1,711	1,699	–12
Office of Inspector General	29	29	0

1. Includes positions for 17 youths, 10 worker trainees, and 4 summer interns.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions

Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

lion, an increase of \$19.2 million, or an average of 6.4 percent per year more than 1998–99 actual expenses. Activities in this operational area include the Board’s monitoring and analysis of developments in the money and credit markets, the setting of reserve requirements, the approval of changes in the discount rate, and other activities related to managing the nation’s monetary policy. The entire increase is associated with higher costs of personnel, including the addition of four positions in the Division of International Finance to meet the expanding need for risk assessment and analysis.

In addition to the changes in personnel services are internally funded initiatives in the Division of Research and Statistics to collect more data related to developments in financial markets; gain a better understanding of embodied technological change; expand the sectoral productivity database; and further assess credit bureau data. These initiatives are all funded by reductions, primarily in automation support.

Supervision and Regulation

The 2000–01 revised budget for supervision and regulation is \$149.8 million, an increase of \$19.8 million, or an average of 7.4 percent per year more than 1998–99 actual expenses. Activities in this area include working with other federal and state financial authorities to ensure safety and soundness in the operation of financial institutions, stability in the financial markets, and fair and equitable treatment of consumers in their financial transactions. The budget, as described below, enables enhanced supervisory activities such as continuous monitoring, inspection, and examination of banking organizations to assess their condition and their compliance with relevant laws and regulations.

The percentage increase for this operational area is greater than the percentage increase for the overall budget. Besides the normal factors affecting compensation in each of the operational areas, new work approved in the current budget period, such as the BOND project in the Division of Banking Supervision and Regulation, is having a significant effect. The processing of applications will be enhanced through investment in the Application Information System.

Many positions in this operational area were vacant for long periods following the voluntary retirement incentive program in 1998 but have now been filled. Success in filling these positions results in part from substantial salary increases within key job families to improve retention and assist with recruiting. Thus, in the Division of Banking Supervision and Regulation, the vacancy rate has decreased. The number of positions in the Consumer Affairs area has increased, and the investment in software to better analyze data gathered under the Community Reinvestment Act and the Home Mortgage Disclosure Act continues to be substantial.

Services to Financial Institutions and the Public

The 2000–01 revised budget for oversight of Reserve Bank services to financial institutions and the public is \$7.9 million, an increase of \$1.9 million, or an average of 14.8 percent a year more than 1998–99 actual expenses. This operational area provides support to, and oversight of, the Federal Reserve Banks and Branches—specifically, evaluation of the operational and pricing performance for the check-payment activities of the Reserve Banks; oversight of the electronic payments mechanism; and annual evaluation of the Federal

Reserve System's currency, coin, and food coupon operations. The increase reflects new software development for managing the currency operations and a lower projected rate of vacancies in key programs analyzing payment system risk.

System Policy Direction and Oversight

The 2000–01 revised budget for System policy direction and oversight is \$67.3 million, an increase of \$3.7 million, or an average of 2.8 percent per year more than 1998–99 actual expenses. This operational area covers oversight and direction of Board and Reserve Bank programs. It includes programs that directly support Board members in carrying out their oversight function for Reserve Bank operations, budgeting and accounting, financial examinations, audit and operations reviews, and automation and communications. Salary increases are the largest single factor in the higher costs of this area, which are tempered by lower costs associated with changes in oversight policy.

Capital Budget

The Board's 2000–01 capital budget is \$26.5 million, an increase of \$5.5 million from 1998–99 actual expenses. Of this total, \$14.7 million is for regular operations, an increase of \$1.9 million above the 1998–99 level. This portion of the budget supports continued improvements in office automation and major upgrades to the information infrastructure, including a major cable upgrade to enhance bandwidth and communication speeds. Funds are also provided for the restoration of aging facilities such as restrooms; mail distribution and central file storage systems; heating, ventila-

tion, and air conditioning systems; and other, smaller facilities projects.

The remaining \$11.8 million is for continuation of the Eccles Building Infrastructure Enhancement Project. The \$3.4 million increase over expenditures in 1998–99 is due to the phased nature of the project, which began in July 1999. The project, which is extending the building's useful life, enhancing fire safety systems, replacing piping and voice and data cabling, and making other related repairs, is scheduled for completion in 2002.

Positions

The overall position authorization for the Board decreased by 12, primarily in overhead and support areas, from 1998–99 actual levels, to a total of 1,699 positions (table 2.2).

Reductions in support-related areas include a significant number in Support Services due to faster-than-anticipated consolidation of the duplicating, publications, and cafeteria functions, reflecting reorganizations and changes in business practices to increase efficiency. Reductions are projected for the Division of Information Technology and the Management Division as part of their planning initiatives to increase efficiency and effectiveness. Finally, reductions in the Division of Banking Supervision and Regulation have been made to accommodate shifting priorities.

These decreases are partially offset by an increase of nine positions in the core mission areas. Three positions have been added in the Division of Research and Statistics to expand its analysis of financial markets data and to continue development of a sectoral productivity database. Four economist positions have been added in the Division of International Finance to meet the expanding need for risk assessment and analysis in

the monetary policy and research areas to enable the Board to keep current on the rapid changes in the financial industry both domestically and abroad. Two analyst positions have been added in the Division of Consumer and Community Affairs to handle a growing volume of consumer complaints and a shift to a more risk-focused approach to consumer compliance examinations.

Trends in Expenses and Employment

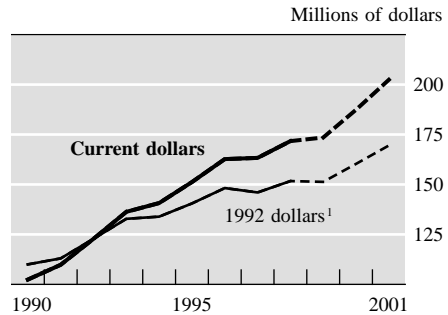
The rate of increase in the 2000–01 revised budget, 6.3 percent on an annual basis, is slightly higher than the 4.1 percent rate in the 1998–99 biennium. The projected annual rate of increase over the 1999–2001 period averages 6.3 percent (table 2.3; see also charts 2.1–2.5). The main cause of the larger increase over the entire period is the net increase in positions, higher salary and benefit costs, and an increasingly sophisticated automation system required to manage a sharp increase in the volume and complexity of the Board's workload. The higher increase from the last budget results from a larger merit component (4.4 percent for 2000 versus 3.5 percent for 1999), major software development costs for the supervision and regulation function, and a smaller volume of savings from administrative actions and programmatic reductions.

Approximately three-fourths of the Board's operating expenses are for personnel; consequently, analysis of trends is heavily tied to staffing levels. From 1990 to 2001, the number of authorized positions for Board operations rose from 1,529 to 1,668, a net increase of 139, or 9.1 percent.

Automation changes to provide sophisticated analytical tools to staff members, manage larger data sets, and

Chart 2.1

Operating Expenses of the Board of Governors, 1990–2001



Year	Millions of dollars	
	Current dollars	1992 dollars ¹
1990	102.4	110.0
1991	109.8	113.0
1992	122.8	122.8
1993	136.3	132.8
1994	140.7	133.9
1995	151.2	140.5
1996	162.7	148.2
1997	163.3	146.0
1998	171.7	151.7
1999	173.5	151.3
2000	187.4	160.3
2001	202.4	169.5

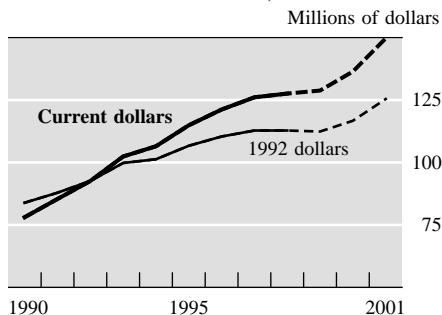
NOTE. For 2000, estimated; for 2001, budgeted. Excludes the Office of Inspector General and extraordinary items. The annual values for 1998, 1999, 2000, and 2001 are the approximate calendar-year figures contained within the respective two-year budgets.

1. Calculated with the GDP price deflator.

provide information to the public over the Board's web site required a net increase of 32 positions over the 1990–2001 period. Automation—accompanied by a decline in clerical tasks and a sharp increase in positions requiring higher technical and analytical skills—also resulted in major changes in the composition of the Board's staff.

Changes in banking, frequently associated with automation enhancements, increased the complexity of safety and soundness activities and caused an increase of 51 positions over the period. Increased attention to consumer issues,

Chart 2.2
Expenses for Personnel Services
at the Board of Governors, 1990–2001

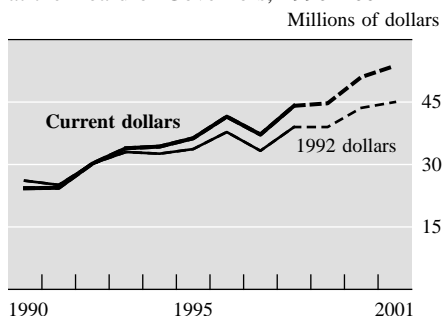


NOTE. See notes to chart 2.1.

including collection and analysis of data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act, added 35 positions. Increasing complexity of monetary policy issues resulted in an increase of 34 positions. Oversight of Reserve Bank operations became more complex, resulting in an increase of 12 positions. These increases were partially offset by a decline of 25 administrative and support positions resulting from capital investments, improved efficiency, and outsourcing.

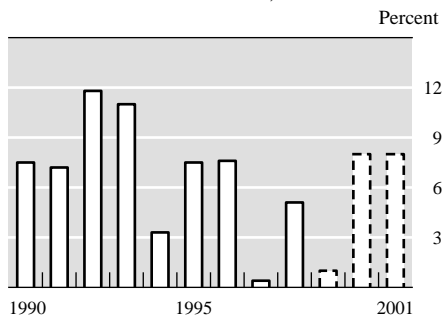
Although the number of positions at the Board has fluctuated during the

Chart 2.3
Expenses for Goods and Services
at the Board of Governors, 1990–2001



NOTE. See notes to chart 2.1.

Chart 2.4
Annual Change in Operating Expenses
of the Board of Governors, 1990–2001



NOTE. Year-end data. See also general note to chart 2.1.

1990–2001 period, the salary budget (not including retirement and insurance benefits) has remained relatively stable at roughly 65 percent of operating expenses. The portion of operating expenses devoted to retirement and insurance has decreased approximately 1 percentage point over the period as a result of administrative actions to limit costs for health insurance and other benefits.

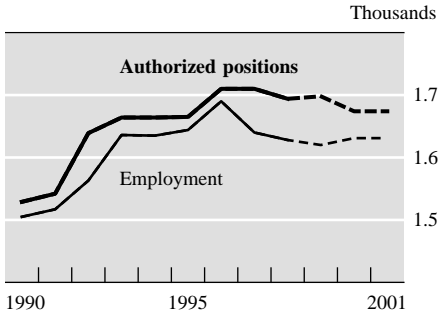
Extraordinary Items

The Board’s extraordinary items budget provides \$7.8 million for three projects. The first, a survey of consumer finances (\$5.5 million), will provide financial data for various policy analysis and monetary policy purposes. This effort reflects the Board’s interest in improving the quality of economic data by obtaining information on the income, assets, debts, pensions, employment, use of financial services, savings behavior, and other characteristics of U.S. households. Cross-categorization of the data will allow important statistical observations useful in a wide variety of economic studies.

The second project is the completion of the National Survey of Small Busi-

Chart 2.5

Employment and Authorized Positions
at the Board of Governors, 1990–2001



Year	Employment	Authorized positions
1990	1,505	1,529
1991	1,517	1,542
1992	1,563	1,639
1993	1,636	1,664
1994	1,635	1,664
1995	1,644	1,665
1996	1,686	1,712
1997	1,638	1,713
1998	1,629	1,694
1999	1,620	1,680
2000	1,631	1,668
2001	1,631	1,668

NOTE. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General. These positions number 60 for 2000 and 2001. Includes positions that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

ness Finances (NSSBF), begun in 1999 for data as of year-end 1998 (\$1.2 mil-

lion). The purpose of the survey was to gather data from small businesses on their financial relationships, credit experiences, lending terms and conditions, income and balance sheet information, location and types of financial institutions used, and other firm characteristics. The NSSBF is used in analyzing the competitive effect of bank mergers, in benchmarking other data series (such as the noncorporate sector of the flow-of-funds statistics), and in writing the quinquennial small business report mandated by section 227 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. It is also used for research and policy analysis of a wide variety of issues in small business finances.

Finally, the extraordinary items budget provides \$1.2 million to complete bringing the Board's software into compliance with the century date change. These funds are for completion of system monitoring over the leap year day (February 29, 2000); work related to the event management activities in January 2000; and decommissioning test facilities and equipment that are no longer needed. Over the past three years, funds for this project, which have totaled \$17.6 million, have been used to remediate, test, and implement Year 2000 versions of the Board's information systems. ■

Chapter 2

Board of Governors

The 2002–03 budget for the Board of Governors consists of \$455.0 million for operations, \$1.5 million for extraordinary items (projects of a unique nature), and \$7.8 million for the Office of Inspector General. The Board has authorized 1,741 staff positions for operational areas and 29 positions for the Office of Inspector General; no positions are required for the extraordinary items.

Overview of the Budget

On a biennial basis, the Board and its senior staff undertake a planning and budgeting process that results in a strategic plan for the next four years and a budget for the next two years. For the 2002–05 planning period and the 2002–03 budget period, the Committee on Board Affairs, assisted by a senior-level Staff Planning Group (SPG) and staff in the Program Analysis and Budget Section of the Management Division, guided the process. Each division director, working with his or her oversight committee, examined the division's operations to see how the mission, organization, and resources needed to be adjusted to enable the Board to carry out its mission more efficiently and effectively. The process readjusted priorities to accomplish the mission, and identified important but lower priority work for elimination in order to fund some of the higher priorities. In August 2001, the Board approved a budget objective to implement those planning decisions, and budgets were submitted in early September. The terrorist actions of Septem-

ber 11 resulted in significant revisions to those budget submissions.

Planning

The Staff Planning Group reviewed the planning materials submitted by the Board's divisions and offices and identified major issues that are anticipated to have Boardwide significance over the planning period. These issues are reflected in the resource decisions of the Committee on Board Affairs that form the basis of the budget. They will also serve as the basis for the 2002–03 Performance Plan prepared as part of the Board's voluntary compliance with the Government Performance and Results Act. Here are the major issues:

- *Management and staffing.* Recruiting and retaining staff were once again raised as issues of significant concern in a number of divisions. In addition, because a significant number of senior staff are eligible for retirement, management succession planning and organizational structure is a top priority.
- *Board organization.* A comprehensive review of Reserve Bank oversight activities, including a reexamination of the legal requirements for oversight, could result in a more efficient, effective, and consistent approach.
- *Information technology.* In line with planning guidance, divisions reexamined their information technology spending to ensure that high-priority items are fully funded while lower-priority items are either reduced or eliminated. Doing so held information technology spending at current levels.

- *Physical plant.* The 2001 purchase of a new building will significantly lower office space costs.
- *External and internal factors.* The work of the Board will continue to be affected by environmental factors over which the Board has little or no control. The Board and its staff must stand ready to adjust priorities as necessary to deal with economic events, often unforeseen and rapidly developing, and their effects on monetary, supervisory, and regulatory policymaking.

Major Initiatives

To address these major planning issues, the budget includes the following major initiatives and projects for the 2002–03 period.

- *Attraction and retention of staff.* Initiatives to improve the Board's ability to attract and retain staff include the variable pay program for economists, attorneys, and officers; an increase in the employee cash award program; a 4.6 percent merit increase for 2002; and an estimated 4.0 percent merit increase for 2003.
- *Employee benefits.* A major increase in health insurance rates is being funded, as are initiatives to increase the transportation subsidy, increase the Board match for deferred compensation, and fund costs associated with the revised leave policy.
- *Workload.* New positions and a reduction in the number of vacant positions in specific divisions in response to increased workloads, new security concerns, and implementation of the compensation initiatives will all affect salary liability.
- *Information technology.* After a comprehensive review of requirements and priorities, the various

divisions are reallocating information technology resources among projects. Central IT support was funded at the current level except for increases to enhance disaster recovery.

- *Physical plant.* In line with the Board's earlier strategic plan, a building purchased in 2001 has significantly reduced the net operating cost for office space in this budget. Capital investments are planned for the Board's facilities as discussed below, in the section on the capital budget. Noncapital improvements are also planned for the facilities.

Ramifications of the September Terrorist Attacks

After the terrorist attacks on September 11, the projects and initiatives listed below were added to the 2002–03 budget proposal. The list includes programmatic changes that will be required to handle the long-term changes to the working and economic environment. These items and their associated operating costs of \$13.8 million are included in the total budget.

- Enhanced capacity Boardwide for disaster recovery, including reducing the time to resume normal operations at remote sites and increasing the amount of information and the number of systems supported at those sites
- Initiatives to enhance physical security, including adding security staff; using bomb-sniffing dogs for greater perimeter security; using contractual support for mail processing; and other, less visible, measures
- Additional staff in the Division of Reserve Bank Operations and Payment Systems to focus on system security issues in response to new terrorism-related legislation, and a new section (including new staff) to

focus on private-sector clearance and settlement systems in order to increase the Board's understanding and competence in this area

- Two positions in Banking Supervision and Regulation, in response to new terrorism-related legislation, to focus on money laundering and financial transactions associated with terrorist activity
- Four positions in the Office of the Staff Director for Management to improve the planning and coordination of contingency operations and to act as a liaison with the new Office of Homeland Security.

Areas of Risk

The possibility remains, of course, that further developments could require significant resources beyond the current proposals. These developments could include the following:

- Significant changes in or shocks to the economy or financial system
- Additional terrorist activity or war
- Determination that Systemwide supervisory technology initiatives should be funded and managed by the Board
- Changes to the assumptions regarding the position vacancy rates used in developing the salary budget.

Operations Budget by Division and Account Classification

The Board's overall operations budget is detailed by division in table 2.1 and by account classification in table 2.3. Table 2.2 shows the number of authorized positions for Board operations by division. The largest increase in the 2002–03 budget is in personnel services. The budget for personnel services (salaries, retirement, and insurance) is \$338.1 million, or \$50.5 million greater

than the 2000–01 estimate (an average increase of 8.4 percent per year). The addition of eleven positions explains a portion of this increased budget. Merit pay, new compensation initiatives, promotions and reclassifications, higher benefit costs, and a lower vacancy rate in certain divisions is also increasing the budget requirements.

The 2002–03 budget for goods and services is \$116.8 million, which is \$11.1 million greater than the 2000–01 estimate (an increase of 5.1 percent per year). Much of this increase is attributable to additional disaster recovery work stemming from the September 11 attacks.

Partially offsetting these increases are programmatic reductions in areas throughout the Board. These include significant changes in various accounts due to the Board's transition from leasing office space at its new location to owning the building, with a net reduction in expenses of \$3.0 million annually. Additionally, the replacement cycle for desktop computers will be extended, and support for regular information technology projects has been considerably scaled back after various divisions changed priorities and eliminated lower-priority projects.

Operations Budget by Operational Area

The Board's 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 (tables 2.4 and 2.5).

The largest increase in expenses is in the security portions (both information and physical) of overhead, which is spread, in proportion to direct expenses, among the four operational areas. This

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Table 2.1

Operating Expenses of the Board of Governors, by Division, Office, or Special Account, 2000–01 and 2002–03

Thousands of dollars except as noted

Division, office, or special account	2000–01 (estimated)	2002–03 (budgeted)	Change	
			Amount	Average annual (percent)
Board Members	8,524	11,813	3,289	17.7
Secretary	8,959	11,256	2,296	12.1
Research and Statistics	62,741	67,382	4,640	3.6
International Finance	22,706	24,873	2,167	4.7
Monetary Affairs	18,835	19,666	831	2.2
Banking Supervision and Regulation	62,840	73,859	11,019	8.4
Consumer and Community Affairs	18,094	20,671	2,576	6.9
Legal	18,148	20,754	2,606	6.9
Reserve Bank Operations and Payment Systems	30,995	35,548	4,553	7.1
Staff Director for Management	3,935	7,097	3,162	34.3
Management	22,318	25,248	2,931	6.4
Support Services	59,289	63,684	4,395	3.6
Information Technology	76,041	81,855	5,814	3.8
Publications Committee	3,934	3,687	-247	-3.2
Special projects	15,000	29,073	14,073	39.2
IRM income account ¹	-38,968	-41,477	-2,509	3.2
Total, Board operations	393,393	454,988	61,595	7.5
Extraordinary items	8,598	1,500	-7,098	. . .
Office of Inspector General	6,617	7,757	1,139	8.3

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

1. Income from various Board divisions for use of central information resources management (IRM) resources.

. . . Not applicable.

increase does not directly enhance the efficiency or effectiveness of current Board operations, but it is necessary given recent changes in the threat environment facing the nation and the Board.

Monetary and Economic Policy

The 2002–03 budget for monetary and economic policy is \$182.5 million, an increase of \$19.2 million, or an average of 5.7 percent per year, from the 2000–01 estimate. Activities in this operational area include the Board's monitoring and analysis of developments in the money and credit markets, the setting of reserve requirements, the

approval of changes in the discount rate, and other activities related to managing the nation's monetary policy.

Besides the additional funding for compensation initiatives, programmatic increases in this area will cover the acquisition of additional data to assist staff in their responsibilities. These data relate to capital risk, retail banking fees and services, global financial markets, and consumer credit.

Supervision and Regulation

The 2002–03 budget for supervision and regulation is \$186.7 million, an increase of \$27.9 million, or an average of 8.4 percent per year, from the 2000–01

Table 2.2

Positions Authorized at the Board of Governors, by Division, Office, or Special Account, 2000–01 and 2002–03

Division, office, or special account	2000–01 (authorized)	2002–03 (budgeted)	Change
Board Members	43	42	-1
Secretary	56	56	0
Research and Statistics	279	278	-1
International Finance	119	119	0
Monetary Affairs	60	59	-1
Banking Supervision and Regulation	227	224	-3
Consumer and Community Affairs	78	82	4
Legal	82	82	0
Reserve Bank Operations and Payment Systems	127	138	11
Staff Director for Management	15	19	4
Management	93	94	1
Concern ¹	31	27	-4
Support Services	212	215	3
Information Technology (IT)	279	278	-1
Special projects	2	1	-1
Subtotal	1,703	1,714	11
Reimbursable IT support ²	25	27	2
Total, Board operations	1,728	1,741	13
Office of Inspector General	29	29	0

1. Summer intern and youth positions handled by the equal employment opportunity function in the Management Division.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions

Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

estimate. Activities in this area include working with other federal and state financial authorities to ensure safety and soundness in the operation of financial institutions, stability in the financial markets, and fair and equitable treatment of consumers in their financial transactions. The 2002–03 budgetary increases will enhance supervisory activities such as ongoing monitoring, inspecting, and examining of banking organizations to assess their condition and their compliance with relevant laws and regulations. Programmatic increases include funding for seven positions added in late 2000, greater focus on money laundering activities, international training and assistance to foreign governments, and a review of regula-

tions and policies related to consumer protection. As risks to the financial sector grow, the staff will need to spend more time on bank examinations and monitoring under the risk-based supervision model implemented over the past few years.

Services to Financial Institutions and the Public

The 2002–03 budget for oversight of Reserve Bank services to financial institutions and the public is \$9.0 million, a decrease of \$0.1 million, or an average of 0.4 percent per year, from the 2000–01 estimate. This operational area provides support to and oversight of the Federal Reserve Banks and

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Table 2.3

Operating Expenses of the Board of Governors, by Account Classification, 1992–93 to 2002–03

Thousands of dollars except as noted

Account classification	1992–93	1994–95	1996–97	1998–99
<i>Personnel services</i>				
Salaries	169,265	190,210	211,005	222,203
Retirement	13,366	15,564	18,015	19,708
Insurance	14,407	16,862	19,196	14,463
Subtotal	197,039	222,637	248,215	256,374
<i>Goods and services</i>				
Travel	8,453	9,399	9,391	10,823
Postage and shipping	2,327	2,483	2,261	1,706
Telecommunications	3,665	4,168	4,367	6,120
Printing and binding	2,237	2,866	2,829	2,188
Publications	2,212	2,976	2,544	2,338
Stationery and supplies	1,635	1,755	1,756	1,831
Software	5,615	6,453	7,865	8,349
Furniture and equipment	2,442	2,497	2,568	7,607
Rentals	3,156	7,202	8,648	8,884
Books and subscriptions	1,451	1,913	1,904	1,765
Utilities	3,683	4,145	3,995	4,429
Building repairs and alterations	3,402	3,273	2,996	2,881
Furniture and equipment repairs and maintenance	4,072	4,198	3,285	3,517
Contingency Processing Center	465	206	0	181
Contractual professional services	9,666	13,797	19,438	24,421
Tuition, registration, and membership fees ...	1,823	2,394	2,311	2,672
Subsidies and contributions	1,504	1,433	1,299	1,524
Depreciation	12,574	14,347	17,683	20,204
Other	-8,309	-16,175	-18,502	-22,637
Subtotal	62,074	69,330	76,638	88,803
Total, Board operations	259,113	291,967	324,853	345,177
Extraordinary items	0	0	4,196	20,401
Office of Inspector General	4,640	5,880	5,975	5,640

Branches—specifically, evaluation of the operational and pricing performance of the check-payment activities of the Reserve Banks; oversight of the electronic payments mechanism; and annual evaluation of the Federal Reserve System's currency, coin, and food coupon operations.

Costs associated with these programs will decline slightly during the next biennium because of the realization of savings from previous initiatives.

System Policy Direction and Oversight

The 2002–03 budget for System policy direction and oversight is \$76.8 mil-

lion, an increase of \$14.5 million, or an average of 11.0 percent per year, from the 2000–01 estimate. This operational area covers oversight and direction of Board and Reserve Bank programs. It includes programs that directly support Board members in carrying out their oversight function for Reserve Bank operations, budgeting and accounting, financial examinations, audit and operations reviews, and automation and communications.

Major programmatic changes in this area include greater emphasis on security and contingency planning System-wide and a new section to provide staff expertise on private-sector clearance and settlement systems. Fewer vacan-

Table 2.3

Continued

Thousands of dollars except as noted

Account classification	2000-01 (estimated)	2002-03 (budgeted)	Average annual change (percent)	
			2000-03	1992-2003
<i>Personnel services</i>				
Salaries	245,031	287,097	8.2	5.4
Retirement	22,897	27,421	9.4	7.5
Insurance	19,725	23,631	9.5	5.1
Subtotal	287,653	338,149	8.4	5.5
<i>Goods and services</i>				
Travel	12,235	13,606	5.5	4.9
Postal and shipping	1,576	1,607	1.0	-3.6
Telecommunications	7,046	7,798	5.2	7.8
Printing and binding	2,549	2,543	-1	1.3
Publications	2,296	2,066	-5.1	-7
Stationery and supplies	2,005	2,404	9.5	3.9
Software	9,915	11,223	6.4	7.2
Furniture and equipment	8,100	7,000	-7.0	11.1
Rentals	10,274	857	-71.1	-12.2
Books and subscriptions	2,087	2,120	.8	3.9
Utilities	4,517	5,555	10.9	4.2
Building repairs and alterations	3,479	3,688	3.0	.8
Furniture and equipment repairs and maintenance	4,278	7,124	29.1	5.8
Contingency Processing Center	400	400	...	-1.5
Contractual professional services	28,538	32,384	6.5	12.9
Tuition, registration, and membership fees ...	3,214	3,173	-6	5.7
Subsidies and contributions	1,866	1,897	.8	2.3
Depreciation	17,420	25,482	20.9	7.3
Other	-16,054	-14,089	-6.3	5.4
Subtotal	105,740	116,839	5.1	6.5
Total, Board operations	393,393	454,988	7.5	5.8
Extraordinary items	7,847	1,500	-56.3	...
Office of Inspector General	6,617	7,757	8.3	5.3

NOTE. Beginning in 1998 the threshold for capitalizing and depreciating a purchase rather than expensing it rose from \$1,000 to \$5,000. The data for 1996-97 have been adjusted, but accurate adjustments for earlier years are not

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

... Not applicable.

cies and an enhanced communication program are also responsible for the substantial increase.

Capital Budget

The Board's proposed 2002-03 capital budget is \$29.9 million. Of this total, \$19.8 million supports continued improvements in office automation and major upgrades to the information technology infrastructure, including completion of the Martin building

recabling project, centralization and improvement of distributed systems disk storage, and scheduled server replacements in the data center. Funds are also provided for the maintenance and upkeep of the Eccles and Martin buildings, including security system upgrades planned before the events of September 11; elevator refurbishment; equipment replacement; interior restoration on the concourse and terrace levels of the Martin building; and restoration of the Eccles building courtyard follow-

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ing completion of the Eccles Building Infrastructure Enhancement Project. Major facility projects include the purchase of an emergency generator, replacement of the Eccles building roof, upgrades to security at building entrances, and a design and feasibility

study for a major renovation of the Martin building.

An additional \$3.3 million has been budgeted for projects resulting from the September terrorist attacks, including substantial improvements to information disaster recovery systems and

Table 2.4

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 2000–01 and 2002–03

Thousands of dollars except as noted

Activity	2000–01 (estimated)	2002–03 (budgeted)	Change	
			Amount	Average annual (percent)
Monetary and economic policy	163,242	182,475	19,233	5.7
Supervision and regulation	158,799	186,711	27,912	8.4
Services to financial institutions and the public	9,083	9,015	–68	–.4
System policy direction and oversight	62,269	76,787	14,518	11.0
Total, Board operations	393,393	454,988	61,595	7.5
Extraordinary items	8,598	1,500	–7,098	...
Office of Inspector General	6,617	7,757	1,140	8.3

NOTE. See general note to table 2.1.

... Not applicable.

Table 2.5

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 2000–01 and 2002–03

Activity	2000–01 (estimated)	2002–03 (budgeted)	Change
Monetary and economic policy	431	429	–2
Supervision and regulation	374	373	–1
Services to financial institutions and the public ..	24	24	0
System policy direction and oversight	155	166	11
Support and overhead ¹	719	722	3
Subtotal	1,703	1,714	11
Reimbursable IT support ²	25	27	2
Total, Board operations	1,728	1,741	13
Office of Inspector General	29	29	0

1. Includes positions for 17 youths, 10 worker trainees, and 4 summer interns.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institutions

Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

expansion of the scope of the building entrance security upgrade project already scheduled.

The Eccles Building Infrastructure Enhancement Project will be completed during the 2002–03 budget period. The amount budgeted, \$3.5 million, is \$8.3 million less than the amount provided during the 2000–01 budget period because of the phased nature of the project, which began in July 1999. The project consists of replacing the voice and data cabling plant, replacing piping, and making other, related repairs and will extend the building's useful life and improve the fire safety systems.

The remaining \$3.3 million of the capital budget is for projects associated with acquisition of the new building. These improvements, which were identified during the due-diligence period of the purchase negotiations, include enhancements to building security; code compliance issues; garage repairs; installation of an emergency generator; electrical, HVAC, and control system upgrades; and carpet replacement.

Positions

In response to the September terrorist attacks, a net of eleven positions have been added to the Board's number of authorized positions; the proposed total is 1,741 positions (table 2.2).

Before September 11, the staff conducted a thorough planning review, yielding an original budget request that included a net reduction of eight positions. A net increase of four positions was authorized for the Division of Consumer and Community Affairs to eliminate four long-term dual occupancies. One position was added to the Division of Reserve Bank Operations and Payment Systems and one position to the Management Division in response to an increased workload. Small, off-

setting position reductions were made in many divisions where efficiencies and workload factors made such decreases possible.

After September 11, nineteen positions were added. These positions are necessary to increase the Board's physical security (seven), ensure compliance with new police powers provided to System security staff under new legislation (two), provide additional resources for antiterrorism and anti-money-laundering activities (two), and increase the Board's expertise in private-sector clearing and settlement systems (eight).

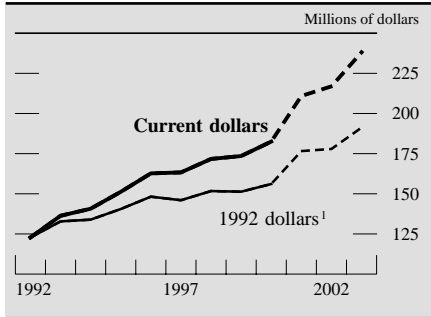
Trends in Expenses and Employment

The rate of increase within the 2002–03 budget biennium is 7.5 percent per year, which is slightly higher than the 6.3 percent annual rate in the 2000–01 biennium (table 2.3). The projected average annual rate of increase from 1992–93 to 2002–03 is 5.8 percent (charts 2.1–2.5). This increase is mainly attributable to the increasing complexity of Board work over this period, which has resulted in a net increase in positions and higher average grades, higher salary and benefit costs, and increasingly sophisticated automation systems required to manage sharply increasing volumes of data. Merit pay, new compensation initiatives, promotions and reclassifications, higher benefit costs, a lower projected number of vacancies in certain divisions, and increased usage of contractual support for continuity of operations increased the budget requirement.

Approximately three-fourths of the Board's operating expenses are for personnel; consequently, analysis of trends is heavily tied to staffing levels. From 1992 to 2003, the number of

Chart 2.1

Operating Expenses of the Board of Governors, 1992–2003



Year	Millions of dollars	
	Current dollars	1992 dollars ¹
1992	122.8	122.8
1993	136.3	132.8
1994	140.7	133.9
1995	151.2	140.4
1996	162.7	148.2
1997	163.3	146.1
1998	171.7	151.7
1999	173.5	151.4
2000	182.5	156.1
2001	210.9	176.6
2002	216.9	177.9
2003	238.1	191.2

NOTE. For 2001, estimated; for 2002–03, budgeted. Excludes the Office of Inspector General and extraordinary items. The annual values for 1998–2003 are the approximate calendar-year figures contained within the respective two-year budgets.

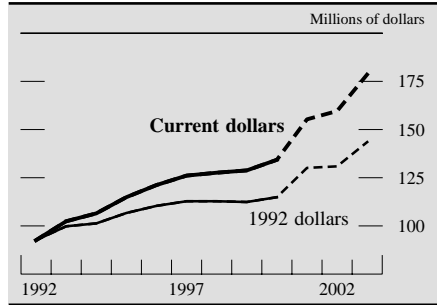
1. Calculated with the GDP price deflator.

authorized positions for Board operations rose from 1,668 to 1,741, a net increase of 73, or 4.4 percent. Reflecting the growing complexity of the Board’s work, the average grade for professional staff rose from 25 to 26.

Changes in banking, frequently associated with automation enhancements, increased the complexity of safety and soundness supervisory activities. To adequately perform these activities, and to increase attention to consumer issues, including collection and analysis of data collected under the Home Mortgage Disclosure Act and Community

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1992–2003

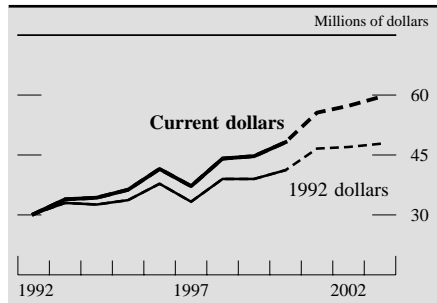


NOTE. See notes to chart 2.1.

Reinvestment Act, a net of thirty-four positions were added. (Many positions associated with lower-priority work were eliminated to offset the cost of the new work.) The increasing complexity of monetary policy issues resulted in an increase of twenty-five positions. Oversight of Reserve Bank operations became more complex resulting in an increase of nineteen positions. Finally, a net decrease of five administrative and support positions resulted from the Board’s efforts to outsource where feasible; without these efforts, the number of administrative and support positions would have increased

Chart 2.3

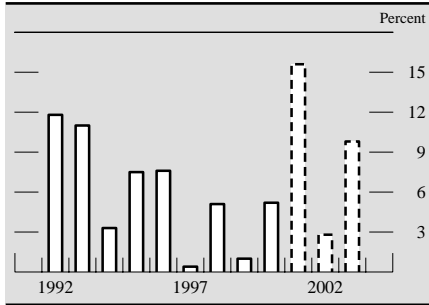
Expenses for Goods and Services at the Board of Governors, 1992–2003



NOTE. See notes to chart 2.1.

Chart 2.4

Annual Change in Operating Expenses of the Board of Governors, 1992–2003



NOTE. Year-end data. See also general note to chart 2.1.

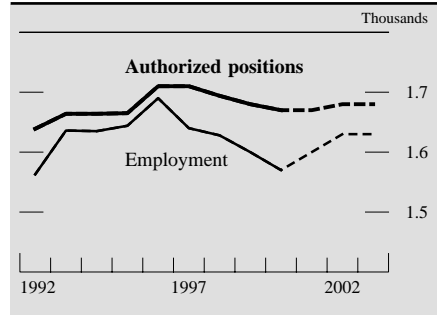
because of enhanced security and the acquisition of new office space.

While the number of positions at the Board has fluctuated during the 1992–2003 period, the salary budget (not including retirement and insurance benefits) has remained relatively stable at roughly 64 percent of operating expenses. The portion of operating expenses devoted to retirement and insurance has increased approximately 1 percentage point over the period as a result of administrative actions to enhance health insurance and other benefits.

The Board experienced an average annual percentage increase in expenses for goods and services of 6.5 percent over the 1992–2003 period. The largest contributor to this increase was a 12.9 percent annual rate of increase in the contractual professional services account because of outsourcing tasks such as security, IT services, and facilities support. Increases in the complexity of the Board's work resulted in additional data purchases and training requests. Partially offsetting the overall increase is a significant decrease in rental costs because of the year-end 2001 acquisition of a building previously rented by the Board.

Chart 2.5

Employment and Authorized Positions at the Board of Governors, 1992–2003



Year	Employment	Authorized positions
1992	1,563	1,639
1993	1,636	1,664
1994	1,635	1,664
1995	1,644	1,665
1996	1,686	1,712
1997	1,638	1,713
1998	1,629	1,694
1999	1,600	1,680
2000	1,568	1,668
2001	1,599	1,668
2002	1,631	1,681
2003	1,631	1,681

NOTE. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General. These positions number 60 for 2002 and 2003. Includes positions that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

Extraordinary Items

The Board's extraordinary items budget for 2002–03 provides funds of \$1.5 million for the Survey of Consumer Finances (\$0.7 million) and the Survey of Small Business Finances (\$0.8 million). These surveys will improve the quality of economic data produced by the Board by gathering information on the economic behavior of U.S. households and the financial health of U.S. firms. Data collection for the 2001 Survey of Consumer Finances was completed at the beginning of December

2001, and data processing will accelerate in 2002. Final data will not be completed until 2002, though preliminary data are expected to be available earlier. A summary article on the survey is scheduled to be published in the January 2003 *Federal Reserve Bulletin*, and a version of the survey data will be released to the public shortly thereafter. Preparations for the 2004 Survey of Consumer Finances are expected to be under way no later than the first quarter of 2003. The survey instrument will be reprogrammed, requiring the generation of highly detailed specifications and the development of a new data management protocol. The last half of 2003 will see increasingly intensive testing of the instrument, development of materials to support data collection, preliminary sample design work, and a full pretest of operations. The staff expects to start interviewing for the 2004 survey in spring 2003.

Work on the Survey of Small Business Finances during the second half of 2002 will involve canvassing Board staff, academics, and other researchers to help determine the content of the

2003 survey. By the first quarter of 2003, survey staff will write a memorandum for the Board with recommendations regarding the 2003 survey. Survey staff will also develop a statement of work with a request for proposal expected to be issued around May or June 2003. Following the evaluation of proposals, a contract will be awarded during the fourth quarter of 2003. Work should begin in the fourth quarter of 2003, and fieldwork (which is the portion of the contract with the largest expenditures) will not begin until about April 2004.

Office of Inspector General

The 2002–03 budget of \$7.8 million for the Office of Inspector General (OIG) is separate from the Board's. The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's operating budget. In conformance with the statutory independence of the office, the OIG presents its budget directly to the Chairman of the Board of Governors for consideration by the Board. ■

Chapter 2

Board of Governors

Biennially, the Board of Governors and its senior staff undertake a planning process that results in a strategic plan for the next four years and a budget for the next two years. The revised 2002–03 budget for the Board consists of \$466.0 million for operations, \$1.5 million for extraordinary items (projects of a unique nature), and \$7.8 million for the Office of Inspector General. The Board has authorized 1,884 staff positions for operational areas and 29 positions for the Office of Inspector General; no positions are required for the extraordinary items.

Planning Issues

In developing the 2002–03 plan, the Board identified the following issues.

- *Management and staffing.* Emphasis will be placed on recruitment, retention, management-succession planning, and organizational structure.
- *Board organization.* A comprehensive review of Reserve Bank oversight activities, including a reexamination of the legal requirements for oversight, could result in a more efficient, effective, and consistent approach.
- *Information technology.* A reexamination of information technology items allowed spending in that area to be held at current levels.
- *Physical plant.* The 2001 purchase of a new building will significantly lower costs for office space.
- *External and internal factors.* The Board and its staff stand ready to adjust priorities as necessary to deal with economic events and their effects on monetary, supervisory, and regulatory policymaking.

Major Initiatives

To address these major planning issues, the budget includes the following major initiatives and projects for the 2002–03 period.

- *Attraction and retention of staff.* Initiatives to improve the Board's ability to attract and retain staff include the variable-pay program for economists, attorneys, and officers; an increase in the employee cash award program; a 4.6 percent merit increase for 2002; and a 4.0 percent merit increase for 2003.
- *Employee benefits.* A major increase in health insurance rates is being funded, as are initiatives to increase the transportation subsidy, increase the Board match for deferred compensation, and fund costs associated with the revised leave policy.
- *Workload.* New positions and a reduction in the number of vacant positions in specific divisions in response to increased workloads, new security concerns, and implementation of the compensation initiatives will all affect salary liability.
- *Information technology.* Central IT support was funded at the current level, except for increases to enhance disaster recovery.
- *Physical plant.* In line with the Board's earlier strategic plan, a building purchased in 2001 has significantly reduced the net operating cost for office space in this budget. Capital investments are planned for the Board's facilities as discussed below, in the section on the capital budget. Noncapital improvements are also planned for the facilities.

Ramifications of the September 11 Terrorist Attacks

After the terrorist attacks on September 11, but before the approval of the 2002–03 budget, the projects and initiatives listed below, totaling \$13.8 million, were funded in the 2002–03 budget.

- Enhanced capacity Boardwide for disaster recovery, including reducing the time to resume normal operations at remote sites and increasing the amount of information and the number of systems supported at those sites
- Initiatives to enhance physical security, including adding security staff; using bomb-sniffing dogs for greater perimeter security; using contractual support for off-site mail processing; and other, less visible, measures
- Additional staff in the Division of Reserve Bank Operations and Payment Systems to focus on system security issues in response to new terrorism-related legislation, and a new section (including new staff) to focus on private-sector clearance and settlement systems to increase the Board's understanding and competence in this area
- Two positions in Banking Supervision and Regulation, in response to new terrorism-related legislation, to focus on money laundering and financial transactions associated with terrorist activity
- Four positions in the Office of the Staff Director for Management to improve the planning and coordination of contingency operations and to act as a liaison with the new Office of Homeland Security

After further review, in July of 2002, \$11.0 million was added to the budget for the following:

- A restructuring and enhancement of the Board's uniformed security force, which involved the addition of 98

positions, to strengthen the security provided to Board staff and premises and to implement changes according to the newly approved federal law enforcement authority of Board security officers

- Developing a contractual arrangement with private vendors for an off-site mail-processing operation to screen all mail and packages before delivery to Board premises in order to lessen the chances for the introduction of chemical, biological, radiological, or explosive materials into Board buildings

Operations Budget by Operational Area

The Board's 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 (tables 2.1 and 2.2).

The largest increase in expenses is in the security portions (both information and physical) of overhead, which is spread, in proportion to direct expenses, among the four operational areas. This increase does not directly enhance the efficiency or effectiveness of current Board operations, but it is necessary given the threats that the nation and the Board are now facing.

Monetary and Economic Policy

The 2002–03 revised budget for monetary and economic policy is \$186.9 million, an increase of \$23.4 million, or an average of 6.9 percent per year, from the 2000–01 actuals. Activities in this operational area include the Board's monitoring and analysis of developments in the money and credit markets, the setting of reserve requirements, the approval of changes in the discount rate, and other activities related to managing the nation's monetary policy.

Table 2.1

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 2000–01 and 2002–03

Thousands of dollars except as noted

Operational area, extraordinary items, or Office of Inspector General	2000–01 (budgeted)	2000–01 (actuals)	2002–03 (revised budget)	Average annual percent change	
				2000–01 actuals compared with 2000–01 budgeted	2002–03 revised budget compared with 2000–01 actuals
Monetary and economic policy .	161,863	163,521	186,886	0.5	6.9
Supervision and regulation	156,664	154,157	191,225	–0.8	11.4
Services to financial institutions and the public	8,892	8,500	9,233	–2.2	4.2
System policy direction and oversight	63,780	61,482	78,644	–1.8	13.1
Total, Board operations	391,199	387,660	465,988	–0.5	9.6
Extraordinary items	7,847	8,392	1,500	3.4	–57.7
Office of Inspector General	6,617	6,322	7,757	–2.3	10.8

NOTE. Operating expenses reflect all redistributions for support and allocations for overhead, and they exclude

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

Besides the additional funding for compensation initiatives, programmatic increases in this area will cover the acquisition of additional data to assist staff in their responsibilities. These data relate to capital risk, retail banking fees and services, global financial markets, and consumer credit.

Supervision and Regulation

The 2002–03 revised budget for supervision and regulation is \$191.2 million, an increase of \$37.1 million, or an average of 11.4 percent per year, from the 2000–01 actuals. Activities in this area include working with other federal and state financial authorities to ensure safety and soundness in the operation of financial institutions, stability in the financial markets, and fair and equitable treatment of consumers in their financial transactions. The 2002–03 budgetary increases will enhance supervisory activities such as monitoring, inspecting, and examining banking organizations to assess their condition and their compliance with relevant

laws and regulations. Program increases include funding for seven positions added in late 2000, greater focus on money-laundering activities, international training and assistance to foreign governments, and a review of regulations and policies related to consumer protection. As risks to the financial sector grow, the staff will need to spend more time on bank examinations and monitoring under the risk-based supervision model implemented over the past few years.

Services to Financial Institutions and the Public

The 2002–03 revised budget for oversight of Reserve Bank services to financial institutions and the public is \$9.2 million, an increase of \$0.7 million, or an average of 4.2 percent per year, over the 2000–01 actuals. This operational area provides support to and oversight of the Federal Reserve Banks, including evaluation of service strategies, pricing, performance, risks, and service and product design of the check-collection, automated

Table 2.2

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 2000–03

Thousands of dollars except as noted

Operational area, extraordinary items, or Office of Inspector General	2000–01 (budgeted)	2000–01 (actuals)	2002–03 (revised budget)	Average annual percent change	
				2000–01 actuals compared with 2000–01 budgeted	2002–03 revised budget compared with 2000–01 actuals
Monetary and economic policy ..	433	433	430	0.0	–0.3
Supervision and regulation	381	372	377	–1.2	0.7
Services to financial institutions and the public	22	24	24	4.4	0.0
System policy direction and oversight	163	157	168	–1.9	3.4
Support and overhead ¹	691	734	858	3.1	8.1
Subtotal	1,690	1,720	1,857	0.9	3.9
Reimbursable IT support ²	25	25	27	0.0	3.9
Total, Board operations	1,715	1,745	1,884	0.9	3.9
Extraordinary items .....	...	...	...	...	...
Office of Inspector General	29	29	29	0.0	0.0

1. Includes positions for seventeen youths, ten worker trainees, and four summer interns.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institu-

tions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

clearinghouse, net settlement, currency and coin, and funds and securities transfer activities of the Reserve Banks; oversight of the electronic payments mechanism; and annual evaluation of the Federal Reserve System's currency, coin, and food-coupon operations. Costs associated with these programs will decline slightly during the next biennium because of the realization of savings from previous initiatives.

System Policy Direction and Oversight

The 2002–03 revised budget for System policy direction and oversight is \$78.6 million, an increase of \$17.2 million, or an average of 13.1 percent per year, from the 2000–01 actuals. This operational

area covers oversight and direction of Board and Reserve Bank programs, with the exception of those mentioned under "Services to Financial Institutions and the Public," above. The area includes programs that directly support Board members in carrying out functions such as communicating with the Congress and the public, and oversight of significant support activities at the Reserve Banks, such as finance, human resources, audit, and information technology.

Major program changes in this area include greater focus on security and contingency planning Systemwide and a new section to provide staff expertise on private-sector clearance and settlement systems. Fewer vacancies and an enhanced communication program are also responsible for the substantial increase.

Capital Budget

The Board's 2002–03 capital budget is \$29.9 million. This is \$12.7 million over the 2000–01 capital expenses of \$17.2 million, most of which was spent on the Eccles Building Infrastructure Enhancement Project (EBIEP). Of the 2002–03 total, \$19.8 million supports continued improvements in office automation and major upgrades to the information infrastructure. Funds are also provided for the maintenance and upkeep of the Eccles and Martin Buildings. Major facility projects include the purchase of an emergency generator, replacement of the Eccles Building roof, upgrades to security at building entrances, and a design and feasibility study for a major renovation of the Martin Building.

An additional \$3.3 million has been budgeted for projects resulting from the September 11 terrorist attacks, including substantial improvements to information disaster recovery systems and expansion of the scope of the building entrance security upgrade project already scheduled.

The EBIEP will be completed during the 2002–03 budget period. Because of the phased nature of the project, which began in July 1999, the amount budgeted, \$3.5 million, is \$8.3 million less than the amount provided during the 2000–01 budget period.

The remaining \$3.3 million of the capital budget is for projects associated with the improvements of the newly acquired building.

Positions

For the 2002–03 biennium, a net of 139 positions were added to the Board's number of authorized positions, bringing the total to 1,884 (see appendix D, table D.2). A net increase of four positions was authorized for the Division of Consumer and Community Affairs to eliminate four

long-term dual occupancies. Nine positions were added to the Division of Reserve Bank Operations and Payment Systems and two positions to the Management Division in response to increased workload. Small, offsetting position adjustments were made in many divisions where efficiencies and workload factors made such changes possible.

In response to September 11, 120 positions were added. These positions are necessary to increase the Board's physical security, provide additional resources for antiterrorism and anti-money-laundering activities, and increase the Board's expertise in private-sector clearing and settlement systems.

2000–01 Budget Performance

Board operating expenses increased by \$42.4 million (12.3 percent) from 1998–99 to 2000–01. Personnel-related expenses increased by \$27.5 million (10.7 percent), while expenses for goods and services increased by \$15.6 million (14.9 percent). Income increased by \$0.7 million (4.2 percent). Final expenses for Board operations were \$387.7 million, or \$3.5 million (0.9 percent) less than budgeted.

The increase in personnel-related expenses (salaries, retirement, and insurance) is attributable to the merit pay increases (3.5 percent in 1999, 4.9 percent in 2000, and 4.7 percent in 2001), the new variable-pay program and increased cash award programs, and significant increases in retirement and insurance costs. Health insurance costs increased by \$3.8 million (32.0 percent), and retirement costs increased by \$1.8 million (17.5 percent).

Average employment during the 2000–01 biennium was 1,610—18 employees (1.1 percent) lower than the 1998–99 average of 1,628. At biennium-end, the Board had 1,650 employees, the highest level of the biennium. The increase in

employment toward period-end was concentrated in the oversight area (aggressive hiring in the Division of Reserve Bank Operations and Payment Systems) and support area (security and facility operations). In the 2000–01 timeframe, there is little change in employment patterns in the three research divisions, where the variable-pay program for economists was implemented to increase recruiting and retention.

The largest contributing factor in the increase in the goods and services areas was a shifting of information technology resources from the Century Date Change (CDC) Project, which took place during the 1998–99 cycle, to backlogged projects in the divisions, which were worked on during the 2000–01 cycle. Because the charges for IT resources used by the CDC are in the extraordinary-items budget, the Board's operating costs increased as those resources shifted to the divisions.

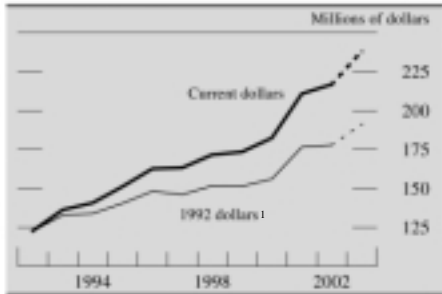
Increases in the contractual professional services area are the second-largest factor in the overall increase in the goods and services area over the previous period. This growth primarily resulted from additional security requirements following September 11. Additional increases were the result of more use of outside computer services by the Division of Banking Supervision and Regulation, growth in the amount of and cost of data acquired from third parties, and additional contractor support in the Human Resources Function of the Management Division. Partially offsetting decreases in the contractual professional services area resulted from elimination of charges associated with the Resource Shared Applications and reduced use of contractor support by the Division of Information Technology.

Trends in Expenses and Employment

The rate of increase within the 2002–03 budget is 9.6 percent per year. Largely

Chart 2.1

Operating Expenses of the Board of Governors, 1992–2003



Year	Millions of dollars	
	Current dollars	1992 dollars ¹
1992	122.8	122.8
1993	136.3	132.8
1994	140.7	133.9
1995	151.2	140.4
1996	162.7	148.2
1997	163.3	146.1
1998	171.7	151.7
1999	173.5	151.4
2000	182.5	156.1
2001	210.9	176.6
2002	216.9	177.9
2003	238.1	191.2

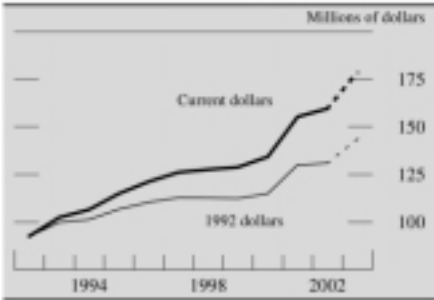
NOTE. For 2001, actuals; for 2002–03, budgeted. Excludes the Office of Inspector General and extraordinary items. The annual values for 1998–2003 are the approximate calendar-year figures contained within the respective two-year budgets.

1. Calculated with the GDP price deflator.

because of security enhancements and merit pay initiatives, this is higher than the projected 6.2 percent average annual rate of increase from the 1992–93 period to the 2002–03 period (charts 2.1 through 2.4). The increase over this ten-year period is mainly attributable to the increasing complexity of Board work. This increased complexity required a net increase in positions and higher average grades, higher salary and benefit costs, and increasingly sophisticated automation systems to manage sharply increasing volumes of data. Merit pay, new compensation initiatives, promotions and reclassifications, higher benefit costs, a lower projected number of vacancies in certain

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1992–2003



Note. See notes to chart 2.1.

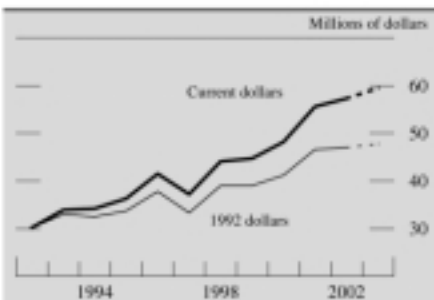
divisions, and increased use of contractual support for continuity of operations increased the budget.

Approximately three-fourths of the Board’s operating expenses are for personnel; consequently, analysis of trends is heavily tied to staffing levels. From 1992 to 2003, the number of authorized positions for Board operations rose from 1,639 to 1,853, a net increase of 185, or 11.3 percent. A large part of this increase in positions is for new security precautions. Reflecting the growing complexity of the Board’s work, the average grade for professional staff rose from 25 to 26.

During the 10-year period, changes in banking, frequently associated with automation enhancements, increased the

Chart 2.3

Expenses for Goods and Services of the Board of Governors, 1992–2003



Note. See notes to chart 2.1.

Chart 2.4

Employment and Authorized Positions at the Board of Governors, 1992–2003



Year	Employment	Authorized Positions
1992	1,563	1,639
1993	1,636	1,664
1994	1,635	1,664
1995	1,664	1,665
1996	1,686	1,712
1997	1,638	1,713
1998	1,629	1,694
1999	1,600	1,680
2000	1,593	1,692
2001	1,639	1,714
2002	1,687	1,853
2003	1,687	1,853

NOTE. Year-end data. Excludes summer intern, worker trainee, and youth positions as well as positions for the Office of Inspector General. These positions number 60 for 2002 and 2003. Includes positions that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

complexity of safety-and-soundness supervisory activities. To adequately perform these activities, and to increase attention to consumer issues, including collection and analysis of data collected under the Home Mortgage Disclosure Act and Community Reinvestment Act, a net of thirty-four positions were added. (Many positions associated with lower-priority work were eliminated to offset the cost of the new work.) The increasing complexity of monetary policy issues resulted in an increase of twenty-five positions. Substantial change has occurred in the overall Reserve Bank environment, including numerous operational consolidations and related changes

to the governance process. As a result of these changes, as well as increased interest in private-sector companies important to the nation's financial infrastructure, nineteen positions were added. Finally, a net decrease of five administrative and support positions resulted from the Board's efforts to outsource where feasible; without these efforts, the number of administrative and support positions would have increased because of enhanced security and the acquisition of new office space.

While the number of positions at the Board has fluctuated during the 1992–2003 period, the salary budget (not including retirement and insurance benefits) has remained relatively stable at roughly 64 percent of operating expenses. The portion of operating expenses devoted to retirement and insurance has increased approximately 1 percentage point over the period as a result of administrative actions to enhance health insurance and other benefits.

The Board experienced an average annual percentage increase in expenses for goods and services of 6.4 percent over the 1992–2003 period. The largest contributor to this increase was a 12.9 percent annual increase in the contractual professional services account resulting from outsourcing tasks such as security, IT services, and facilities support. Increases in the complexity of the Board's work resulted in additional data purchases and training requests. Partially offsetting the overall increase was a significant decrease in rental costs because of the year-end 2001 acquisition of a building previously rented by the Board.

Survey Expenses

The Board's extraordinary-items budget for 2002–03 provides funds of \$1.5 million for the Survey of Small Business Finances (\$0.8 million) and the Survey of Consumer Finances (\$0.7 million). These surveys will improve the quality of economic data produced by the Board by gathering information on the economic behavior of U.S. households and the financial health of U.S. firms. A summary article on the survey of consumer finances is scheduled to be published in the January 2003 *Federal Reserve Bulletin*, and a version of the survey data will be released to the public shortly thereafter. Preparations for the 2004 Survey of Consumer Finances are expected to be underway the first quarter of 2003.

During the course of 2003, Small Business Finances survey staff will make a recommendation to the Board, issue a request for proposal, and award a contract. Field work will not begin until about April 2004.

Office of Inspector General

The 2002–03 budget of \$7.8 million for the Office of Inspector General (OIG) is separate from the Board's. The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's operating budget. In conformance with the statutory independence of the office, the OIG presents its budget directly to the Chairman of the Board of Governors for consideration by the Board. ■

Chapter 2

Board of Governors

Every two years, the Board and its senior staff undertake a process that produces a four-year strategic plan and a biennial budget. For the 2004–07 planning period and the 2004–05 budget period, the Committee on Board Affairs, assisted by a senior-level Staff Planning Group (SPG) and staff in the Program Analysis and Budget Section of the Management Division, guided the process. The 2004–05 budget for the Board consists of \$528.6 million for operations, \$10.0 million for extraordinary items (projects of a unique nature), and \$8.5 million for the Office of Inspector General. The Board has authorized 1,895 staff positions and 31 positions for the Office of Inspector General; no positions are required for the extraordinary items.

Planning Issues

The Staff Planning Group reviewed the planning materials submitted by the Board's divisions and offices and identified the following major issues that will have Boardwide impact over the planning period:

- strategic human resource issues, including support for efforts to attract and retain highly qualified staff
- information technology initiatives that provide the public with improved access to Board data and information
- legislation and support for initiatives, such as Basel II
- physical and information security and continuity of operations
- investments in facilities

These issues are reflected in the resource-allocation decisions of the Committee on Board Affairs that are the basis

of the approved budget. They will also serve as the basis for the 2004–05 performance plan prepared as part of the Board's voluntary compliance with the Government Performance and Results Act.

Major Initiatives

To address these major planning issues, the approved budget includes the following initiatives and projects for the 2004–05 period.

- *Attract and retain staff.* Initiatives to improve the Board's ability to attract and retain staff include the variable-pay program for economists, attorneys, and officers; a 4.1 percent merit increase for 2004 and a placeholder of 3.5 percent for the 2005 merit increase; and actions to enhance productivity and meet new requirements, such as improved information technology equipment, access to enhanced data sets, and a slight increase in staffing to assist with current analysis.
- *Information technology (IT).* Funding is provided for the Board to comply with e-government initiatives such as improved public access to data, information security, and section 508 compliance.
- *Workload.* A small increase in the number of positions, a reallocation of positions to meet higher-priority requirements, and the filling of a number of vacant positions are necessary in order to comply with new laws that affect Board operations, such as the Federal Information Security Management Act, to fulfill expanded supervisory responsibilities under the

Sarbanes-Oxley Act, and to prepare for Basel II and other key initiatives.

- *Security and continuity of operations.* Funding to hire and train armed security staff authorized during the 2002–03 biennium, and other actions to enhance employee safety and the Board’s ability to operate in a contingency environment, added significantly to the budget.
- *Facilities.* In line with the Board’s strategic plan, capital investments are planned for the three Board facilities, as discussed below in the section on the capital budget. Additional non-capital improvements are also planned at all three facilities.

- significant changes in or shocks to the economy or the financial system that create a material increase in workload
- additional terrorist activity resulting in more security and contingency requirements
- a decision to fund a major Systemwide supervisory technology initiative such as the Shared National Credit Program
- increased workload created by laws or decisions to expand or modify central bank operations
- changes to the position-vacancy-rate assumptions used in developing the salary budget and a need for more office space if the staff increases

Areas of Risk

Despite a careful and coordinated planning effort, future developments such as the following could require resources beyond what is currently approved:

- a merit increase greater than the 3.5 percent for 2005

Operations Budget by Operational Areas

The Board’s operations budget supports four broadly defined operational areas: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and Federal Reserve System policy direction and oversight (tables 2.1 and 2.2). The fol-

Table 2.1

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 2002–05

Thousands of dollars, except as noted

Operational area, extraordinary items, or Office of Inspector General	2002–03 (budgeted)	2002–03 (estimated)	2004–05 (budgeted)	Average annual percent change	
				2002–03 estimated compared with 2002–03 budgeted	2004–05 budgeted compared with 2002–03 estimated
Monetary and economic policy ..	190,057	190,057	210,168	0.0	5.2
Supervision and regulation	195,354	195,354	221,060	0.0	6.4
Services to financial institutions and the public	9,045	9,045	10,299	0.0	6.7
System policy direction and oversight	77,696	77,696	87,043	0.0	5.8
Total, Board operations	472,152	472,152	528,570	0.0	5.8
Extraordinary items	1,500	1,560	10,000	2.0	153.2
Office of Inspector General	7,757	7,751	8,533	0.0	4.9

NOTE. Operating expenses reflect all redistributions for support and allocations for overhead, and they exclude

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

lowing is a summary discussion of the resources, including support and overhead, budgeted for each area for 2004–05.

Monetary and Economic Policy

The 2004–05 budget for the monetary and economic policy function is \$210.2 million, an increase of \$20.1 million, or an average of 5.2 percent per year. Activities in this operational area include the Board’s monitoring and analysis of developments in the money and credit markets, the setting of reserve requirements, the approval of changes in the discount rate, and other activities related to managing the nation’s monetary policy.

Besides the additional funding for compensation initiatives, increases in this area

will cover the acquisition of additional data to assist staff. These data relate to credit risk, retail banking fees and services, global financial markets, and consumer credit.

Supervision and Regulation

The 2004–05 budget for the supervision and regulation function is \$221.1 million, an increase of \$25.7 million, or an average of 6.4 percent per year.

Activities in this area include working with other federal and state financial authorities to ensure safety and soundness in the operation of financial institutions, stability in the financial markets, development of guidance related to regulatory capital and risk management, and fair and equitable treatment of consumers in their

Table 2.2

Positions Authorized at the Board of Governors, by Operational Areas, Support and Overhead, and Office of Inspector General, 2002–05

Thousands of dollars, except as noted

Operational area, extraordinary items, or Office of Inspector General	2002–03 (budgeted)	2002–03 (estimated)	2004–05 (budgeted)	Annual average percent change	
				2002–03 estimated compared with 2002–03 budgeted	2004–05 budgeted compared with 2002–03 estimated
Monetary and economic policy ..	433	430	426	–0.3	–0.5
Supervision and regulation	381	384	385	0.4	0.1
Services to financial institutions and the public	22	24	24	4.4	0.0
System policy direction and oversight	163	168	173	1.5	1.5
Support and overhead ¹	691	860	860	11.6	0.0
Subtotal	1,690	1,866	1,868	5.1	0.0
Reimbursable IRM support ²	25	27	27	0.0	3.9
Total, Board operations	1,715	1,893	1,895	5.1	0.1
Extraordinary items .....	...	...	...	...	...
Office of Inspector General	29	31	31	3.4	0.0

1. Includes seventeen youth positions, ten worker trainee positions, and four summer intern positions.

2. Positions in the Division of Information Technology that provide support to the Federal Financial Institu-

tions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

financial transactions. The 2004–05 budgetary increases will enhance supervisory activities such as monitoring, inspecting, and examining banking organizations to assess their condition and their compliance with relevant laws and regulations as well as the development of supervisory guidance that addresses an increasingly complex financial environment and risk-management techniques. Programmatic increases include funding for positions added in late 2003, greater focus on money-laundering activities, the development of a revised international capital accord, international training and assistance to foreign governments, and a review of regulations and policies related to consumer protection. As risk-management processes and financial transactions become increasingly complex, staff will need to spend more time on complex bank examinations, monitoring new and innovative risk-management practices and ensuring that proper controls are in place at all financial institutions under the Federal Reserve’s supervision.

Services to Financial Institutions and the Public

The 2004–05 budget for oversight of Reserve Bank services to financial institutions and the public is \$10.3 million, an increase of \$1.3 million, or an average of 6.7 percent per year.

This increase, aside from compensation and security initiatives, is primarily due to the development of the Cash Statistical Data System.

System Policy Direction and Oversight

The 2004–05 budget for System policy direction and oversight is \$87.0 million, an increase of \$9.3 million, or an average increase of 5.8 percent per year.

This increase, aside from compensation initiatives, is due to the continued

focus on security and contingency planning.

Capital Budget

The Board’s 2004–05 capital budget is \$28.5 million. Of this total, \$15.8 million is for continued security enhancements and major building projects. Major facility projects include perimeter security enhancements, a fire sprinkler system, design for a Martin Building renovation, building security and office reconfigurations, and a new access control system to improve monitoring of individuals entering Board facilities.

Information technology projects, including server replacements, network infrastructure, and data security enhancements, will cost \$4.6 million. Another \$6.8 million is for nonautomation projects such as enhancements to the Board’s web site and a new telephone system.

The remaining \$1.3 million is for a new mainframe, software, furniture, and other miscellaneous items.

Positions

For the 2004–2005 budget period, staffing requests resulted in a net increase of two positions in the Board’s position authorization, bringing the total to 1,895 positions (see appendix D, table D.2).

A net increase of seven positions was approved in the Management Division for five maintenance staff for the New York facility purchased in 2001, one industrial hygienist, and one construction assistant.

The Office of Board Members, Office of the Secretary, Legal Division, and Special Projects abolished seven positions.

Four positions were transferred to the Office of Staff Director for Management from the Information Center staff within the Division of International Finance. The Division of Consumer and Community Affairs had a net increase of two policy-

related positions, self-funded by reducing the level of current information technology resources.

2002–03 Budget Performance

During the 2002–03 budget period, the operating budget increased by \$17.2 million (3.8 percent) largely due to increased security costs after September 11, 2001. Budgeted personnel-related expenses increased by \$8.6 million (2.5 percent), while expenses for goods and services increased by \$7.5 million (5.6 percent). Income decreased by \$1.0 million (5.9 percent) due to renegotiated charges for processing data collected under the Home Mortgage Disclosure Act and less usage of the mainframe by Federal Reserve Banks. Final expenses for Board operations are expected to be on target at \$472.2 million.

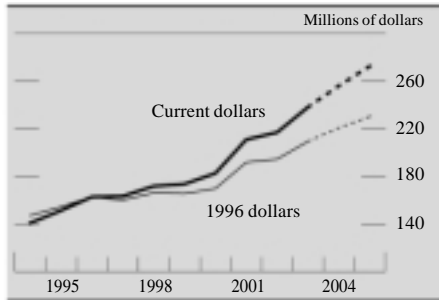
The increase in personnel-related expenses was a result of the decision to hire and develop a security staff that meets rigorous federal law enforcement standards, rather than continue to hire outside contractors. Although the in-house security staff was supplemented with contractors through part of the biennium, the full staff has now been assembled.

Average employment during the 2002–03 biennium was approximately 1,724, which was 114 employees (7.0 percent) higher than the 2000–01 average of 1,610. These additions are related to the increase in security staff. In addition, the variable-pay program, which was created to increase recruitment and retention of economists, attorneys, and officers, has been successful in decreasing turnover and will continue as a Board program.

The largest contributing factor in the increase in goods and services is contractual professional services for canine screening teams and private security guards to ensure the safety of Board employees. Increases in telecommunications expenses are primarily associated

Chart 2.1

Operating Expenses of the Board of Governors, 1994–2005



with the contingency site established to allow uninterrupted Board service to the public in emergencies.

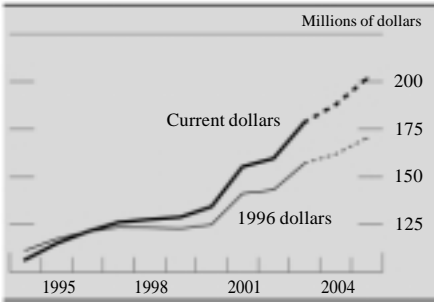
Trends in Expenses and Employment

The rate of increase within the 2004–05 budget is 5.8 percent per year, which is less than the 6.3 percent projected average annual rate of increase since the 1994–95 biennium (chart 2.1). The increase since the 1994–95 biennium is mainly attributable to strategic human capital initiatives and the increasing complexity of Board work over this period. This increased complexity required a net increase in positions and higher average grades, higher salaries, and increasingly sophisticated automation systems to manage ever-increasing volumes of data. More recently, the Board has experienced sharply higher security and contingency costs.

Approximately three-fourths of the Board's operating expenses are for personnel (chart 2.2); consequently, analysis of trends is heavily tied to staffing levels. From 1994 to 2005, the number of authorized positions for Board operations rose from 1,644 to 1,864, a net increase of 221, or 13.4 percent (chart 2.3). However, a large part of this increase is for enhanced security. Reflecting the grow-

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1994–2005

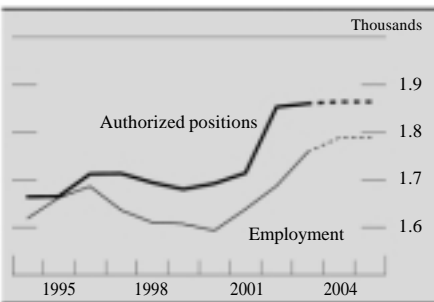


ing complexity of the Board's work, the average grade for professional staff rose from 25 to 26.

During the ten-year period, changes in banking, many associated with operations risk, increased the complexity of supervisory safety-and-soundness activities. To adequately perform these activities, and to increase attention to consumer issues, including collection and analysis of data for the Home Mortgage Disclosure Act and Community Reinvestment Act, a net of thirty-four positions were added. (Many positions associated with lower-

Chart 2.3

Employment and Authorized Positions at the Board of Governors, 1994–2005



NOTE. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General. These positions number 62 for 2004 and 2005. Includes positions that provide support to the Federal Financial Institutions Examination Council for processing data collected under the Home Mortgage Disclosure Act and the Community Reinvestment Act.

priority work were eliminated to offset part of the cost of the new work.) The increasing complexity of monetary policy issues resulted in an increase of twenty-five positions.

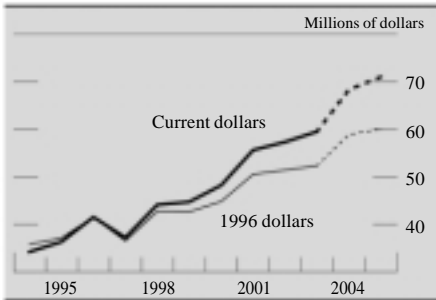
There has been substantial change in the overall Reserve Bank environment, including numerous operational consolidations and related changes to the governance process. As a result of these changes, as well as the need to track private-sector clearing and settlement organizations, nineteen positions were added.

Finally, a net decrease of five administrative and support positions resulted from the Board's efforts to outsource where feasible. Without these efforts, the number of administrative and support positions would have increased because of enhanced security and the purchase of an office building to replace leased space.

While the number of positions at the Board has fluctuated during the 1994–2005 period, the salary budget (not including retirement and insurance benefits) has remained relatively constant at roughly 63 percent of operating expenses. The portion of operating expenses devoted to retirement and insurance has increased approximately one percentage point over the period as a result of administrative actions to enhance benefits such as the Thrift Plan and because of significant rate increases for health insurance.

Over the 1994–2005 period, the average annual increase in expenses for goods and services has been 6.4 percent (chart 2.4). The largest increase was in contractual professional services. This growth resulted primarily from three factors: (1) increased use of contracting services in the divisions of Information Technology, Management, and Banking Supervision and Regulation; (2) significant increases in the amount and cost of data acquired from third parties; and (3) procurement of outside legal services. Partially offsetting the overall increase is a significant decrease in rental costs due to

Chart 2.4
 Operating Expenses of the
 Board of Governors, 1994–2005



the purchase of the New York Avenue building.

Survey Expenses

The Board's extraordinary items budget for 2004–05 provides funds of \$10.0 million for the Survey of Small Business Finances (\$3.3 million) and the Survey of Consumer Finances (\$6.7 million). These surveys, which gather information

on the economic behavior of U.S. households and the financial health of U.S. firms, will improve the quality of economic analysis produced by the Board. A summary article on the Survey of Consumer Finances is expected to be published in the January 2006 *Federal Reserve Bulletin*, and a version of the survey data will be released to the public shortly thereafter. Preparations for the 2004 Survey of Consumer Finances have been under way since 2003.

Office of Inspector General

The 2004–05 budget of \$8.5 million for the Office of Inspector General (OIG) is separate from the Board's budget. The OIG's budget is prepared in a manner that is consistent with the preparation of the Board's operating budget. In conformance with the statutory independence of the office, the OIG presents its budget directly to the Chairman of the Board of Governors for consideration by the Board. ■