

Chapter 1

Federal Reserve System

For 2000, total operating expenses are budgeted at \$2,507.1 million, an increase from estimated 1999 expenses of 4.7 percent. Of this total, \$2,311.9 million is for the Reserve Banks, and \$195.2 million is for the Board of Governors (tables 1.1 and 1.2).¹ Revenue from priced services provided to depository institutions is expected to total \$925.5 million, or 36.9 percent of total budgeted operating expenses, resulting in net operating expenses of \$1,264.1 million.

Not included in the budget for operations are the expenses for a Reserve Bank special project, budgeted at \$14.0 million.² Also excluded is the cost of currency, budgeted at \$456.4 million for 2000, a decrease of 6.0 percent from the 1999 estimated cost of \$485.7 million.³ The distribution of expenses is similar to that in previous years, with the Reserve Bank's expenses

accounting for approximately three-fourths of the total (chart 1.1).

System employment (including staff for the special project) is budgeted at 25,408 for 2000, an increase of 269 from the estimated 1999 level (details are given in chapters 2 and 3.)

Net Expenses

The System expects to recover 49.6 percent of its budgeted 2000 operating expenses through revenue from priced services, other income, and claims for reimbursement. When these items are deducted from budgeted 2000 operating expenses, the net expenses of the System show an increase of 3.2 percent from estimated 1999 net operating expenses (table 1.1).

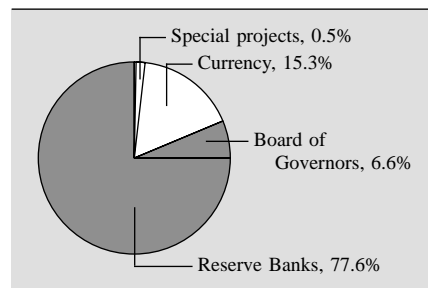
As required by the Monetary Control Act of 1980, revenue from priced services represents fees set to recover, over the long run, all direct and indirect costs of providing the services plus imputed costs, such as taxes that would

1. The Board of Governors now budgets on a two-year cycle (see chapter 2); in this chapter, 2000 values shown for the System and the Board reflect the approximate first-year effect of the Board's 2000-01 budget.

2. As research and development efforts, special projects are separate from the continuing operations of the System and are therefore not included in the System's operations budget. These relatively costly, short-term projects are expected to benefit both the System and the banking industry as a whole. The special project approved for 2000 concerns check-processing standardization and is described in chapter 3, in the section on services provided to depository institutions.

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

Chart 1.1
Distribution of Expenses of the
Federal Reserve System, 2000



NOTE. See text notes 1, 2, and 3.

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have been paid and the return on capital that would have been earned had the services been provided by a private business. Table 1.3 provides details on projected revenue from priced services; the constraints imposed on Federal Reserve budgets by the need to keep such services competitive and the calculation of fees are discussed in appendix A.

Table 1.1

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 1998–2000

Millions of dollars except as noted

Item	1998 actual	1999 estimate	2000 budget	Percentage change	
				1998 to 1999	1999 to 2000
Total System operating expenses	2,261.4	2,394.2	2,507.1	5.9	4.7
LESS					
Revenue from priced services	839.8	871.4	925.5	3.8	6.2
Other income	5.6	2.0	1.9	-64.3	-5.0
Claims for reimbursement ¹	223.7	296.1	315.6	32.4	6.6
EQUALS					
Net System operating expenses	1,192.3	1,224.7	1,264.1	2.7	3.2

NOTE. In this and subsequent tables in this volume, components may not sum to totals and may not yield percentages shown because of rounding.

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

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

Table 1.2

Expenses of the Federal Reserve System for Operations, Special Projects, and Currency, 1998–2000

Millions of dollars except as noted

Entity and type of expense	1998 actual	1999 estimate	2000 budget	Percentage change	
				1998 to 1999	1999 to 2000
Reserve Banks ¹	2,075.3	2,198.6	2,311.9	5.9	5.2
Personnel	1,311.4	1,403.4	1,475.3	7.0	5.1
Nonpersonnel	763.9	795.2	836.6	4.1	5.2
Board of Governors ²	186.1	195.6	195.2	5.1	-2
Personnel	130.0	133.1	139.6	2.4	4.9
Nonpersonnel	56.1	62.5	55.6	11.4	-11.0
Total System operating expenses	2,261.4	2,394.2	2,507.1	5.9	4.7
Personnel	1,441.4	1,536.5	1,614.9	6.6	5.1
Nonpersonnel	820.0	857.7	892.2	4.6	4.0
Special projects ³	3.8	.0	14.0
Currency ⁴	408.3	485.7	456.4	19.0	-6.0

NOTE. See general note to table 1.1.

1. For detailed information, see chapter 3.

2. Includes extraordinary items and expenses of the Office of Inspector General (see text note 1).

3. See text note 2.

4. See text note 3.

Table 1.3
Revenue from Priced Services, 1998–2000
Millions of dollars

Service	1998 actual	1999 estimate	2000 budget
Funds transfers and net settlement	94.5	70.7	65.9
Automated clearinghouse ..	68.4	68.6	70.4
Commercial checks	651.8	708.9	768.0
Book-entry securities transfers	18.8	17.4	17.0
Noncash collection	3.6	3.0	2.0
Special cash services	2.7	2.9	2.1
Total	839.8	871.4	925.5

“Other income” (table 1.1) comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services; included are fees for services such as the settlement of transfers among depository institutions and the wire transfer of funds between depository institutions and the Treasury.

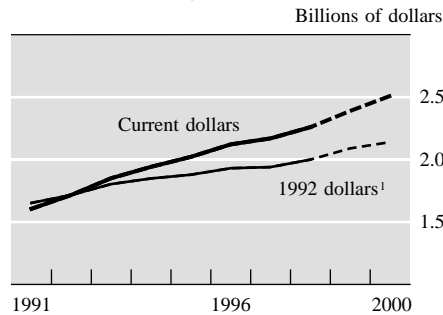
Claims for reimbursement are the expenses Reserve Banks incur in providing fiscal agency services to the Treasury and other government agencies.

Sources and uses of funds are presented in appendix B and the audits of the System are listed in appendix C.

Trends in Expenses and Employment

From actual 1991 levels to budgeted 2000 amounts, the operating expenses of the Federal Reserve System (excluding special projects) have increased an average of 5.1 percent per year (2.9 percent per year when adjusted for inflation) (chart 1.2). Since 1991 the cumulative change for total System expenditures (including special projects) has been 56.4 percent, or an average of 5.1 percent per year (chart 1.3); over the same period, nondefense discretionary spending by the federal government has

Chart 1.2
Operating Expenses of the
Federal Reserve System, 1991–2000



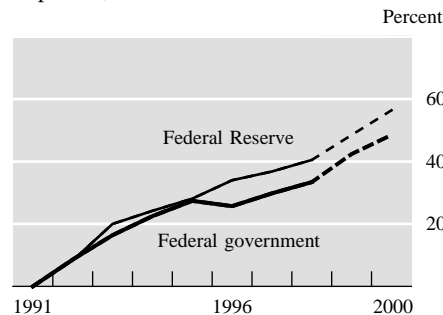
NOTE. For 1999, estimate; for 2000, budget (see also text note 1).

1. Calculated with the GDP price deflator.

shown cumulative growth of 48.5 percent, or an annual average of 4.5 percent. Over the 1991–2000 period, Federal Reserve System employment has increased 297, or 0.1 percent (chart 1.4).

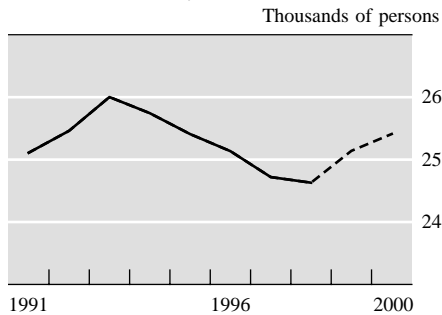
From 1991 through 2000, Federal Reserve System expenses have included numerous major initiatives to support its responsibilities. To maintain and improve the nation’s payment mechanism, the System has upgraded check and cash-

Chart 1.3
Cumulative Change in Federal Reserve
System Expenses and Federal Government
Expenses, 1991–2000



NOTE. Federal Reserve System expenses are operating expenses plus the cost of special projects; federal government expenses are discretionary spending less expenditures on defense. See also general note to chart 1.2.

Chart 1.4
Employment in the
Federal Reserve System, 1991–2000



NOTE. Includes special projects. See also general note to chart 1.2.

processing equipment; led efforts—such as check image processing—to convert paper items to electronics; and implemented same-day settlement requirements.

The System played a major role in ensuring that the financial arena was prepared for the century date change event. Since 1991, funds have been devoted to maintaining the safety and soundness of financial institutions by expanding efforts in the supervision and regulation area. Funding has also been provided in this area to carry out legislative directives such as the Community Reinvestment Act and the Federal Deposit Insurance Corporation Improvement Act.

Across all areas, the System has upgraded its facilities and enhanced its automation capabilities, including the installation of the Fednet communications network and upgrades to local area networks and personal computers.

Expense growth over the past decade largely reflects costs necessary to centralize functions, such as the regionalization of various Treasury operations and the centralization of data processing and

communications at the Federal Reserve Information Technology office. Returns on these investments made during the past ten years and the reengineering efforts within each Reserve Bank are evident in the Federal Reserve System's moderate expense growth over the period. Total employment levels, which declined steadily from 1994 through 1998, also reflect these efforts.

Operational Areas

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

2000 Budget Initiatives

Several major initiatives that affect System budgets will continue or begin in 2000:

- Installation of equipment and software to support the standardization of check processing, the image processing and archiving of commercial checks, and electronic access and delivery
- Consolidation of Treasury Direct and Treasury Tax and Loan processing
- Facilities repair and maintenance.

Partly offsetting the greater expenditures associated with these initiatives are the lower costs associated with staff reductions, which were made possible by several reengineering initiatives and programs to increase efficiency in Federal Reserve operations.

Table 1.4
 Operating Expenses of the Federal Reserve System, by Operational Area, 1998–2000
 Millions of dollars except as noted

Operational area and entity	1998 actual	1999 estimate	2000 budget	Percentage change	
				1998 to 1999	1999 to 2000
Monetary and economic policy	251.7	267.9	276.7	6.4	3.3
Reserve Banks	152.6	167.0	176.9	9.5	5.9
Board of Governors	99.1	100.9	99.8	1.8	-1.1
Services to the U.S. Treasury and other government agencies ¹	223.4	223.0	241.3	-2	8.2
Services to financial institutions and the public	1,251.5	1,332.7	1,389.8	6.5	4.3
Reserve Banks	1,247.4	1,327.7	1,385.0	6.4	4.3
Board of Governors	4.1	4.9	4.9	19.7	-1.3
Supervision and regulation	534.7	570.6	599.4	6.7	5.0
Reserve Banks	451.9	480.8	508.8	6.4	5.8
Board of Governors	82.8	89.8	90.6	8.4	.9
Total	2,261.3	2,394.2	2,507.2	5.9	4.7
Reserve Banks	2,075.3	2,198.6	2,311.9	5.9	5.2
Board of Governors ²	186.1	195.6	195.2	5.1	-2

NOTE. Operating expenses reflect all redistributions for support and allocations for overhead, and they exclude capital outlays and special projects. The operational area unique to the Board of Governors, System policy direction and oversight, which is shown separately in chapter 2, has been allocated across the operational areas listed here. As a result, the numbers for the operational

areas in chapter 2 are not the same as the numbers shown in this table.

1. Reserve Banks only; the Board of Governors does not provide these services.

2. Includes expenses of the Office of Inspector General and extraordinary items. See also text note 1.

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For 2001, total operating expenses are budgeted at \$2,659.8 million, an increase from estimated 2000 expenses of 7.0 percent. Of this total, \$2,442.2 million is for the Reserve Banks, and \$217.6 million is for the Board of Governors (tables 1.1 and 1.2).¹ Revenue from priced services provided to depository institutions is expected to total \$977.8 million, or 36.8 percent of total budgeted operating expenses. This revenue, combined with claims for reimbursement and other income, results in projected net operating expenses of \$1,391.6 million.²

1. The Board of Governors now budgets on a two-year cycle (see chapter 2); in this chapter, 2001 values shown for the System and the Board reflect the approximate second-year effect of the Board's 2000–01 budget.

2. *Other income* (table 1.1) comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the

Not included in the budget for operations is the cost of currency, budgeted at \$427.0 million for 2001, a decrease of 1.9 percent from the estimated 2000 cost of \$435.2 million.³ The distribution of expenses is similar to that in previous years, with the Reserve Bank's expenses accounting for approximately three-fourths of the total (chart 1.1).

System employment is budgeted at 25,090 for 2001, an increase of 69 from the estimated 2000 level (details are given in chapters 2 and 3).

services; included are fees for services such as the settlement of transfers among depository institutions and the wire transfer of funds between depository institutions and the Treasury.

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

Table 1.1

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 1999–2001

Millions of dollars except as noted

Item	1999	2000 (estimated)	2001 (budgeted)	Percent change	
				1999 to 2000	2000 to 2001
Total System operating expenses	2,378.9	2,485.2	2,659.8	4.5	7.0
LESS					
Revenue from priced services	867.6	916.1	977.8	5.6	6.7
Other income	1.9	1.0	.3	-47.4	-70.0
Claims for reimbursement ¹	295.4	310.2	290.1	5.0	-6.5
EQUALS					
Net System operating expenses	1,214.0	1,257.9	1,391.6	3.6	10.6

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

Operating expenses reflect all redistributions for support and overhead and exclude capital outlays.

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

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Table 1.2

Expenses of the Federal Reserve System for Operations and Currency, 1999–2001

Millions of dollars except as noted

Entity and type of expense	1999	2000 (estimated)	2001 (budgeted)	Percent change	
				1999 to 2000	2000 to 2001
Reserve Banks ¹	2,193.8	2,297.8	2,442.2	4.7	6.3
Personnel	1,459.5	1,523.5	1,611.6	4.4	5.8
Nonpersonnel	734.3	774.3	830.6	5.4	7.3
Board of Governors ²	185.1	187.4	217.6	1.2	16.1
Personnel	131.3	139.7	152.8	6.4	9.4
Nonpersonnel	53.9	47.8	64.8	-11.4	35.7
Total System operating expenses	2,378.9	2,485.2	2,659.8	4.5	7.0
Personnel	1,590.8	1,663.2	1,764.4	4.6	6.1
Nonpersonnel	788.2	822.1	895.4	4.3	8.9
Currency ³	485.7	435.2	427.0	-10.4	-1.9

NOTE. See general note to table 1.1.

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

2. Includes extraordinary items and expenses of the Office of Inspector General. See text note 1 and chapter 2.

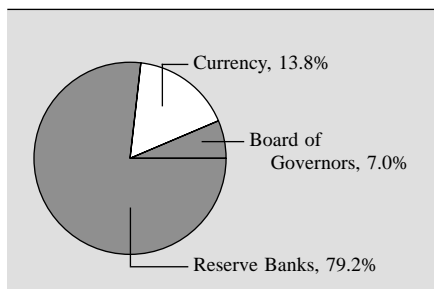
3. See text note 3 and appendix A.

Net Expenses

The System expects to recover 47.7 percent of its budgeted 2001 operating expenses through revenue from priced services, other income, and claims for reimbursement. When these items are deducted from budgeted 2001 operating expenses, the net expenses of the System

Chart 1.1

Distribution of Expenses of the Federal Reserve System, 2001



NOTE. See text notes 1 and 3.

show an increase of 10.6 percent from estimated 2000 net operating expenses (table 1.1).

As required by the Monetary Control Act of 1980, revenue from priced services represents fees set to recover, over the long run, all direct and indirect costs of providing the services plus imputed costs, such as taxes that would have been paid and the return on capital that would have been earned had the services been provided by a private business. Table 1.3 provides details on projected revenue from priced services; the constraints imposed on Federal Reserve budgets by the need to keep such services competitive and the calculation of fees are discussed in appendix A.

Claims for reimbursement are based on the expenses Reserve Banks incur in providing fiscal agency services to the Treasury and other government agencies.

Table 1.3
Revenue from Priced Services, 1999–2001
Millions of dollars

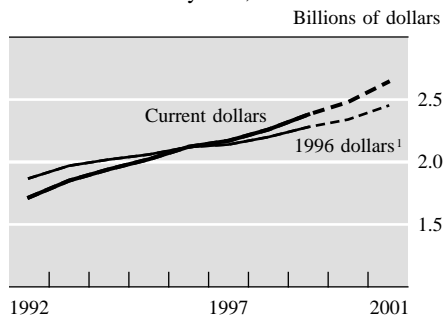
Service	1999	2000 (estimated)	2001 (budgeted)
Funds transfers and net settlement	69.2	65.0	63.2
Automated clearinghouse	67.8	70.6	75.5
Commercial checks	707.3	757.8	815.4
Book-entry securities transfers	17.3	18.0	19.9
Noncash collection	3.0	2.4	2.0
Special cash services	3.0	2.3	1.7
Total	867.6	916.1	977.8

Sources and uses of funds are presented in appendix B and the audits of the System are listed in appendix C.

Trends in Expenses and Employment

From actual 1992 levels to budgeted 2001 amounts, the operating expenses of the Federal Reserve System have increased an average of 4.8 percent per year (2.9 percent per year when adjusted

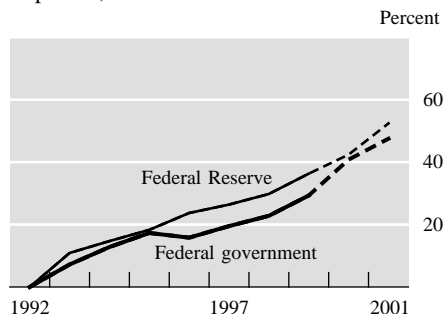
Chart 1.2
Operating Expenses of the Federal Reserve System, 1992–2001
Billions of dollars



NOTE. For 2000, estimated; for 2001, budgeted (for more detail see text note 1).

1. Calculated with the GDP price deflator.

Chart 1.3
Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 1992–2001
Percent

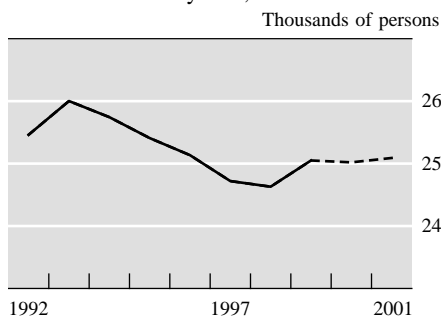


NOTE. Federal government expenses are discretionary spending less expenditures on defense. See also general note to chart 1.2.

for inflation) (chart 1.2). Over the same period, nondefense discretionary spending by the federal government has increased an annual average of 4.4 percent (chart 1.3). Over the 1992–2001 period, Federal Reserve System employment has decreased 372 (chart 1.4).

Two areas grew notably during this period. Spending on banking supervision rose to meet the increase in the number and complexity of examinations, to provide enhanced supervision

Chart 1.4
Employment in the Federal Reserve System, 1992–2001
Thousands of persons



NOTE. See general note to chart 1.2.

of foreign institutions, and to meet the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and the Federal Deposit Insurance Corporation Improvement Act of 1991. Spending also increased as the Reserve Banks consolidated computer operations into three sites. Expenses for this centralization effort began to increase in 1992 and peaked during 1995 and 1996, as redundant equipment and staffing were needed prior to full transition. These expenditures have been balanced over the past several years by savings enabled by greater efficiencies and economies of scale. In addition, Reserve Banks have reduced expenses by consolidating several operations performed on behalf of the Treasury.

Reserve Banks have also realized productivity gains in the cash and check services areas. Based on several measures of productivity, each service has improved productivity by at least 25 percent since 1992.

2001 Budget Initiatives

In 2001, several major initiatives will continue to affect System budgets. As discussed in chapters 3 and 4, installation of equipment and software to support the standardization of check processing and check imaging and archiving is one of the primary drivers of the overall System budget. In addition, several Banks will realize the expense effect of facility upgrades, repairs, and maintenance.

Partly offsetting the greater expenditures associated with these initiatives are the lower costs associated with staff reductions, which were made possible by several reengineering initiatives and programs to increase efficiency in Federal Reserve operations, including the Treasury Direct and Treasury Tax and Loan consolidation efforts. ■

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For 2002, total operating expenses are budgeted at \$2,801.4 million, an increase from estimated 2001 expenses of 4.5 percent. Of this total, \$2,580.2 million is for the Reserve Banks, and \$221.2 million is for the Board of Governors (tables 1.1 and 1.2).¹ Revenue from priced services provided to depository institutions is expected to total \$954.4 million, or 34.1 percent of total budgeted operating expenses. This revenue, combined with claims for reimbursement and other income, results in projected net operating expenses of \$1,538.1 million.² The budget includes

\$12.4 million for a Reserve Bank special project.³

Not included in the budget for operations is the cost of currency, budgeted at \$376.8 million for 2002, an increase of 9.7 percent from the estimated 2001 cost of \$343.5 million.⁴ The distribution of expenses is similar to that in previous

1. The Board of Governors budgets on a two-year cycle (see chapter 2); in this chapter, 2002 values shown for the System and the Board reflect the approximate first-year effect of the Board's 2002–03 budget.

2. *Other income* (table 1.1) comes from services provided on behalf of the U.S. Treasury that

are paid for by the depository institutions using the services, which include the transfer of funds between depository institutions and the Treasury.

3. Special projects are relatively costly, short-term research and development efforts that are expected to benefit both the System and the banking industry as a whole. The special project covers part of the costs of the check-processing modernization project (see chapter 3).

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

Table 1.1

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 2000–2002

Millions of dollars except as noted

Item	2000	2001 (estimated)	2002 (budgeted)	Percent change	
				2000 to 2001	2001 to 2002
Total System operating expenses	2,470.7	2,681.1	2,801.4	8.5	4.5
LESS					
Revenue from priced services	922.8	951.8	954.4	3.1	.3
Other income	1.0	1.1	1.0	10.0	–10.0
Claims for reimbursement ¹	302.4	292.2	307.9	–3.4	5.4
EQUALS					
Net System operating expenses	1,244.5	1,436.0	1,538.1	15.4	7.1

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

Operating expenses include costs for special projects and exclude capital outlays.

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

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Table 1.2

Expenses of the Federal Reserve System for Operations and Currency, 2000–2002

Millions of dollars except as noted

Expense	2000	2001 (estimated)	2002 (budgeted)	Percent change	
				2000 to 2001	2001 to 2002
Reserve Banks ¹	2,281.5	2,461.8	2,580.2	7.9	4.8
Personnel	1,462.3	1,568.3	1,651.8	7.3	5.3
Nonpersonnel	819.3	893.5	928.4	9.1	3.9
Board of Governors ²	189.1	219.3	221.2	16.0	.8
Personnel	137.6	158.4	163.0	15.1	2.9
Nonpersonnel	51.5	60.9	58.2	18.2	-4.5
Total System operating expenses	2,470.7	2,681.1	2,801.4	8.5	4.5
Personnel	1,599.9	1,726.7	1,814.8	7.9	5.1
Nonpersonnel	870.8	954.4	986.6	9.6	3.4
Currency ³	423.4	343.5	376.8	-18.9	9.7

NOTE. See general note to table 1.1.

1. Includes costs for special projects. For detailed information on Reserve Bank expenses, see chapter 3.

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

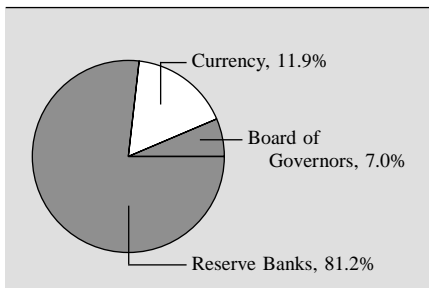
3. See text note 4 and appendix A.

years, with the Reserve Bank's expenses accounting for more than 80 percent of the total (chart 1.1).

System employment (including staff for the special project) is budgeted at 25,241 for 2002, an increase of 314 from the estimated 2001 level (details are given in chapters 2 and 3).

Chart 1.1

Distribution of Expenses of the Federal Reserve System, 2002



NOTE. See text notes 1 and 4.

Net Expenses

The System expects to recover 45.1 percent of its budgeted 2002 operating expenses through revenue from priced services, other income, and claims for reimbursement. When these items are deducted from budgeted 2002 operating expenses, the net expenses of the System show an increase of 7.1 percent from estimated 2001 net operating expenses (table 1.1).

As required by the Monetary Control Act of 1980, revenue from priced services represents fees set to recover, over the long run, all direct and indirect costs of providing the services plus imputed costs, such as taxes that would have been paid and the return on capital that would have been earned had the services been provided by a private business. Table 1.3 provides details on projected revenue from priced services; the constraints imposed on Federal Reserve budgets by the need to keep such services competitive and the

Table 1.3
Revenue from Priced Services, 2000–2002
Millions of dollars

Service	2000	2001 (estimated)	2002 (budgeted)
Funds transfers and net settlement	64.6	63.0	56.1
Automated clearinghouse ..	71.7	76.4	66.4
Commercial checks	763.3	789.2	805.3
Book-entry securities transfers	18.5	19.0	22.8
Noncash collection	2.4	2.0	1.5
Special cash services	2.2	2.2	2.3
Total	922.8	951.8	954.4

calculation of fees are discussed in appendix A.

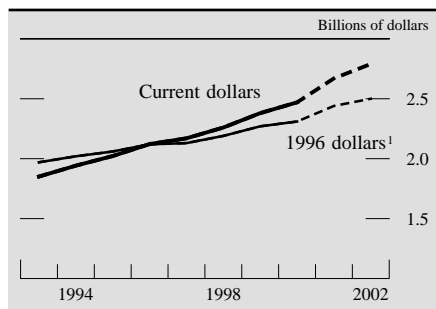
Claims for reimbursement are based on the expenses Reserve Banks incur in providing fiscal agency services to the Treasury and other government agencies.

Sources and uses of funds are presented in appendix B, and the audits of the System are listed in appendix C.

Trends in Expenses and Employment

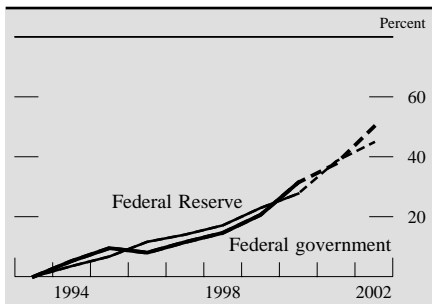
From actual 1993 levels to budgeted 2002 amounts, the operating expenses

Chart 1.2
Operating Expenses of the Federal Reserve System, 1993–2002



NOTE. For 2001, estimated; for 2002, budgeted.
1. Calculated with the GDP price deflator.

Chart 1.3
Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 1993–2002

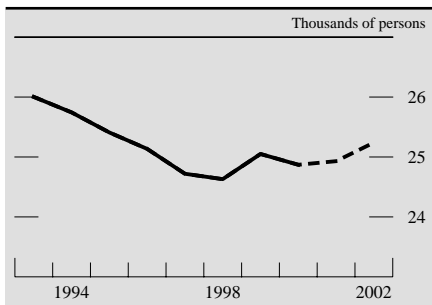


NOTE. Federal government expenses are discretionary spending less expenditures on defense. See also general note to chart 1.2.

of the Federal Reserve System (including special projects) have increased an average of 4.2 percent per year (2.2 percent per year when adjusted for inflation) (chart 1.2). Over the same period, nondefense discretionary spending by the federal government has increased an annual average of 4.6 percent (chart 1.3). Over the 1993–2002 period, Federal Reserve System employment has decreased 761 (chart 1.4).

From 1982, when the transition to the requirements of the Monetary Control

Chart 1.4
Employment in the Federal Reserve System, 1993–2002



NOTE. See general note to chart 1.2.

Act of 1980 was completed, through 1984, System expenses remained essentially flat when adjusted for inflation, and employment declined. In 1985 the staffing level was increased in a pronounced effort to strengthen supervision and regulation of member banks and bank holding companies. The system partially offset the increase in staff through reductions in employment in other areas, mainly in services to financial institutions and the public and in the support and overhead operational areas.

The Expedited Funds Availability Act requires the Federal Reserve to issue regulations to ensure the prompt availability of funds and the expeditious return of checks. The act became effective in 1988 and resulted in staff increases throughout the System in 1988 and 1989. From 1991 through 1998, spending on bank supervision expanded to meet the increase in the number and complexity of examinations and the enhanced supervision requirements for foreign institutions, problem institutions, the Financial Institutions Reform, Recovery, and Enforcement Act of

1989, and the Federal Deposit Insurance Corporation Improvement Act of 1991. The System partially offset these increases by reducing staff in other operational areas, mainly in services to the U.S. Treasury and in services to financial institutions and the public.

Employment for 2002 is projected to grow by 314, largely because of plans to increase security staff.

2002 Budget Initiatives

In 2002, several major initiatives will continue to affect System budgets. As discussed in more detail in chapter 3, security enhancement and check modernization are the primary drivers of the overall System budget. In addition, the Banks will continue to work on projects on behalf of the Treasury.

Partly offsetting this increase in spending are the lower costs associated with consolidations in the wholesale and ACH areas as well as staff reductions due to the continuing efforts to improve productivity and streamline operations. ■

Chapter 1

Federal Reserve System

For 2003, total operating expenses are budgeted at \$2,884 million, an increase of 3.1 percent from estimated 2002 expenses. Of this total, \$2,629.9 million is for the Reserve Banks, and \$254.1 million is for the Board of Governors (tables 1.1 and 1.2).¹ Revenue from priced services provided to depository institutions is expected to total \$925.8 million, or 32.1 percent of total budgeted operating expenses. This revenue, combined with claims for reimbursement and other income, results in projected net operating expenses of \$1,628.5 million.²

The System expects to recover 43.5 percent of its budgeted 2003 operating expenses through revenue from priced

services, other income, and claims for reimbursement. When these items are deducted from budgeted 2003 operating expenses, the net expenses of the System show an increase of 3.7 percent from estimated 2002 net operating expenses (table 1.1).

Not included in the budget for operations is the cost of currency, budgeted at \$510.3 million for 2003, an increase of 18.5 percent from the 2002 estimated cost of \$430.5 million.³ The distribution of expenses is similar to that in previous years, with the Reserve Banks'

1. The Board of Governors now budgets on a two-year cycle; in this chapter, 2003 values shown for the System and the Board reflect the approximate second-year effect of the Board's 2002–03 budget.

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

comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services, which include the transfer of funds between depository institutions and the Treasury.

3. The Federal Reserve pays for the printing of new currency at the Bureau of Engraving and Printing. Because this cost is determined largely by public demand for new currency, it is not included in the Federal Reserve operating expenses. For more information, see appendix C, "Currency Budget."

Table 1.1

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 2001–03

Millions of dollars except as noted

Item	2001 (actuals)	2002 (estimated)	2003 (budgeted)	Percent change	
				2001–02	2002–03
Total System operating expenses	2,657.8	2,796.6	2,884.0	5.2	3.1
LESS					
Revenue from priced services	960.4	909.6	925.8	-5.3	1.8
Other income	1.1	1.0	0.8	-9.1	-20.0
Claims for reimbursements	285.6	316.3	328.9	10.8	4.0
EQUALS					
Net System operating expenses	1,410.7	1,569.7	1,628.5	11.3	3.7

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

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

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Table 1.2

Expenses of the Federal Reserve System for Operations and Currency, 2001–03

Millions of dollars except as noted

Item	2001 (actuals)	2002 (estimated)	2003 (budgeted)	Percent change	
				2001–02	2002–03
Reserve Banks ¹	2,451.2	2,575.4	2,629.9	5.1	2.1
Personnel	1,573.1	1,630.6	1,662.2	3.7	1.9
Nonpersonnel	878.1	944.9	967.7	7.6	2.4
Board of Governors ²	206.6	221.2	254.1	7.1	14.9
Personnel	149.4	163.0	185.5	9.1	13.8
Nonpersonnel	57.1	58.2	68.6	1.8	17.8
Total System operating expenses	2,657.8	2,796.6	2,884.0	5.2	3.1
Personnel	1,722.6	1,793.6	1,847.7	4.1	3.0
Nonpersonnel	935.2	1,003.0	1,036.3	7.2	3.3
Currency ³	350.0	430.5	510.3	23.0	18.5

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

Operating expenses exclude capital outlays.

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

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

3. See appendix C.

expenses accounting for 77.5 percent of the total (chart 1.1).

System employment is budgeted at 24,149 for 2003, a decrease of 743 from the estimated 2002 level.

2003 System Budget Initiatives

In 2003, several major initiatives will continue to affect System budgets. As discussed in more detail in chapter 3, cost-reduction and efficiency initiatives in the

check service, information technology, support, and other areas have helped Reserve Banks to address cost-recovery pressures in the check service as well as to continue to fund high-priority objectives, such as check modernization and projects on behalf of the Treasury.

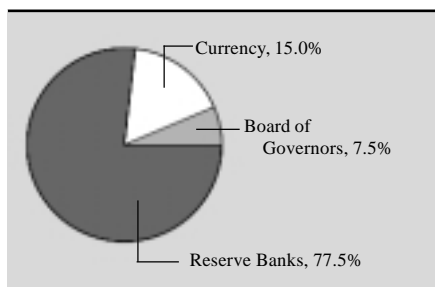
Risks in the 2003 Budget

The Board and Reserve Banks have identified several risks that would require significant resources beyond the budget. The primary risks to the Board budget include significant changes in or shocks to the economy or the financial system, and additional security and contingency requirements.

Areas that present the most imminent risks to Reserve Banks in the 2003 budget are extremely challenging conditions in the check service and related Bankwide cost-reduction strategies. The impact of the recently announced check infrastructure changes are not reflected in the 2003 budgets because decisions were made after the budgets were finalized. In addi-

Chart 1.1

Distribution of Expenses of the Federal Reserve System, 2003



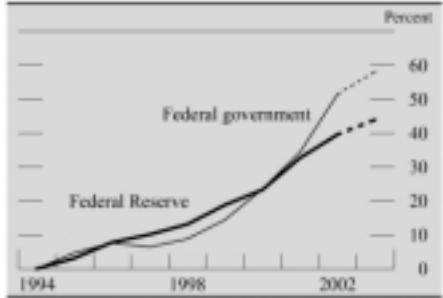
tion, most Banks have submitted budgets for their supervision and regulation functions that are based on the current condition of the banking industry. Changes from the current assumptions could affect staffing levels. Finally, although Reserve Banks are fully reimbursed for services they perform on behalf of the Treasury, there is a continuing risk that throughout the year the Treasury will request additional work from the Banks that was not contemplated when the budgets were developed.

Trends in Expenses and Employment

From actual 1994 levels to budgeted 2003 amounts, the operating expenses of the Federal Reserve System have increased an average of 4.1 percent per year (2.2 percent per year when adjusted for inflation) (chart 1.2). Over the same period, nondefense discretionary spending by the federal government has increased an annual average of 5.2 percent (chart 1.3). Over the 1994–2003 period, Federal Reserve System employment has decreased 1,595 (chart 1.4).

Throughout most of the 1990s, spending on bank supervision expanded to meet the increase in the number and complex-

Chart 1.3
Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 1994–2003



NOTE. Federal government expenses are discretionary spending less expenditures on defense.
For 2002, estimated; for 2003, budgeted.

ity of examinations, the enhanced supervision of foreign institutions, the greater attention to problem institutions, and the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and the Federal Deposit Insurance Corporation Improvement Act of 1991. The System partially offset these increases through increased efficiencies in other operational areas, mainly services to the U.S. Treasury and services to financial institutions and the public. In the most recent years, the budget has grown at a slower rate, reflecting cost-reduction and efficiency initiatives.

Chart 1.2
Operating Expenses of the Federal Reserve System, 1994–2003



NOTE. For 2002, estimated; for 2003, budgeted.
1. Calculated with the GDP price deflator.

Chart 1.4
Employment in the Federal Reserve System, 1994–2003



NOTE. For 2002, estimated; for 2003, budgeted.

Continued emphasis on efficiencies is also reducing staffing levels. Employment for 2003 is projected to decrease by 743 ANP, largely because of planned staff reductions by the Reserve Banks, primarily in the check, information technology, and support areas.

2003 Capital Budgets

The capital budget for both the Reserve Banks and the Board totals \$521.3 million. The Board's 2002–03 capital budget is \$29.9 million. Approximately two-thirds of this total supports continued improvements in office automation and major upgrades to the information infrastructure. Funds are also provided for the maintenance and upkeep of the Board's two main buildings. In addition, this bud-

get includes \$3.3 million for projects resulting from increased security. A more detailed discussion of the Board capital budget is included in chapter 2.

The 2003 capital budget for Reserve Banks and FRIT totals \$491.4 million, a \$160.6 million increase from the 2002 estimated levels. The budget includes \$430.5 million for the Banks and \$60.9 million for FRIT. As in previous years, the 2003 capital budgets include funding for projects that support the strategic direction outlined in the Banks' plans. These strategic goals include improving operational efficiency and effectiveness, improving services to Bank customers, and providing a safe, quality work environment. A more detailed discussion of Reserve Bank capital budgets is included in chapter 3. ■

Chapter 1

Federal Reserve System

For 2004, total operating expenses are budgeted at \$2,935.8 million, an increase of 2.0 percent from estimated 2003 expenses. Of this total, \$2,666.4 million is for the Reserve Banks, and \$269.4 million is for the Board of Governors (tables 1.1 and 1.2).¹ Revenue from priced services provided to depository institutions is expected to total \$929.2 million, or 31.6 percent of total budgeted operating expenses. This revenue, combined with claims for reimbursement and other income, results in projected net operating expenses of \$1,637.3 million.²

1. The Board of Governors now budgets on a two-year cycle; in this chapter, 2004 values shown for the System and the Board reflect the estimated first-year effect of the Board's 2004–05 budget.

2. *Claims for reimbursement* refers to costs of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals that are billed to these agencies. *Other income* comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services, which

The System expects to recover 44.2 percent of its budgeted 2004 operating expenses through revenue from priced services, other income, and claims for reimbursement. When these items are deducted from budgeted 2004 operating expenses, the net expenses of the System show a decrease of 1.6 percent from estimated 2003 net operating expenses (table 1.1).

Not included in the budget for operations is the cost of currency, budgeted at \$518.0 million for 2004, an increase of 4.2 percent from the 2003 estimated cost of \$497.0 million.³ The distribution of

include the transfer of funds between depository institutions and the Treasury.

3. The Federal Reserve pays for the printing of new currency at the Bureau of Engraving and Printing. Because this cost is determined largely by public demand for new currency, it is not included in the Federal Reserve operating expenses. For more information, see appendix C, "Currency Budget."

Table 1.1

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 2002–04

Millions of dollars, except as noted

Item	2002 (actual)	2003 (estimated)	2004 (budgeted)	Percent change	
				2002–03	2003–04
Total System operating expenses	2,762.0	2,879.2	2,935.8	4.2	2.0
LESS					
Revenue from priced services	918.3	888.0	929.2	-3.3	4.6
Other income	1.0	0.8	0.8	-20.0	0.0
Claims for reimbursements ¹	308.6	326.8	368.4	5.9	12.7
EQUALS					
Net System operating expenses	1,534.1	1,663.6	1,637.3	8.4	-1.6

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

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

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

Table 1.2

Expenses of the Federal Reserve System for Operations and Currency, 2002–04

Millions of dollars, except as noted

Item	2002 (actual)	2003 (estimated)	2004 (budgeted)	Percent change	
				2002–03	2003–04
Reserve Banks ¹	2,532.5	2,627.3	2,666.4	3.7	1.5
Personnel	1,615.4	1,677.1	1,661.8	3.8	-0.9
Nonpersonnel	917.1	950.2	1,004.6	3.6	5.7
Board of Governors ²	229.5	251.9	269.4	9.8	6.9
Personnel	169.6	183.3	191.6	8.1	4.5
Nonpersonnel	59.9	68.6	77.8	14.5	13.4
Total System operating expenses	2,762.0	2,879.2	2,935.8	4.2	2.0
Personnel	1,785.0	1,860.4	1,853.4	4.2	-0.4
Nonpersonnel	977.0	1,018.8	1,082.4	4.3	6.2
Currency ³	430.0	497.0	518.0	15.6	4.2

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

Operating expenses include costs for special projects and exclude capital outlays.

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

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

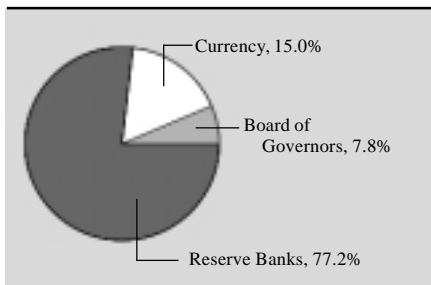
3. See appendix C.

expenses is similar to that in previous years, with the Reserve Banks' expenses accounting for 77 percent of the total, currency expenses accounting for 15 percent, and Board expenses accounting for the remainder (chart 1.1).

System employment is budgeted at 23,134 for 2004, a decrease of 830 from the estimated 2003 level.

Chart 1.1

Distribution of Expenses of the Federal Reserve System, 2004



2004 System Budget Initiatives

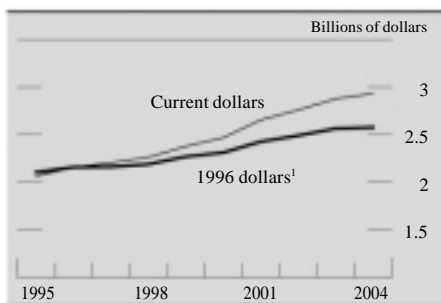
In response to the continuing decline in check volume, the Reserve Banks have established aggressive spending targets for their 2004 budgets. This spending restraint reflects the Banks' efforts to reduce direct operating costs of the check service, as well as Bank support and overhead costs, in keeping with a business and operational strategy to meet the System's long-term financial and payment system objectives. The strategy focuses on reducing check-service operating costs by streamlining management and administrative structures, decreasing the number of check-processing locations, and increasing processing capacity at some locations. The Banks' 2004 budget plans also fund other high-priority payment system objectives, such as those related to the Check Clearing for the 21st Century Act and various projects managed by Reserve Banks on behalf of the Treasury. The major factors affecting the 2004 Reserve Bank budgets are outlined in more detail in chapter 3.

Trends in Expenses and Employment

From actual 1995 levels to budgeted 2004 amounts, the operating expenses of the Federal Reserve System have increased an average of 4.0 percent per year (2.3 percent per year when adjusted for inflation) (chart 1.2). Over the same period, nondefense discretionary spending by the federal government has increased an annual average of 5.2 percent (chart 1.3). Over the 1995–2004 period, Federal Reserve System employment has decreased 2,341 (chart 1.4).

Throughout most of the 1990s, bank supervision costs grew as a result of the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and the Federal Deposit Insurance Corporation Improvement Act of 1991; an increase in the number and complexity of examinations; enhanced supervision of foreign institutions; and, to a lesser extent, increased attention to problem institutions. More recently supervisory costs have been related to initiatives related to the Gramm-Leach-Bliley Act and the USA Patriot Act, as well as continuing supervisory initiatives related to banking conditions and the development of a revised capital accord (Basel II). The System partially offset these increases

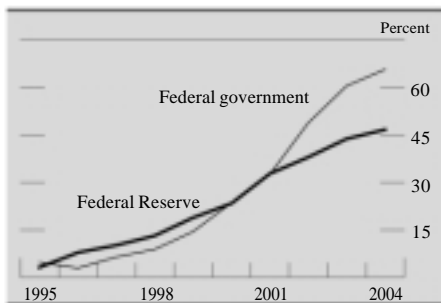
Chart 1.2
Operating Expenses of the Federal Reserve System, 1995–2004



NOTE. For 2003, estimated; for 2004, budgeted.
1. Calculated with the GDP price deflator.

Chart 1.3
Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 1995–2004

Includes special projects

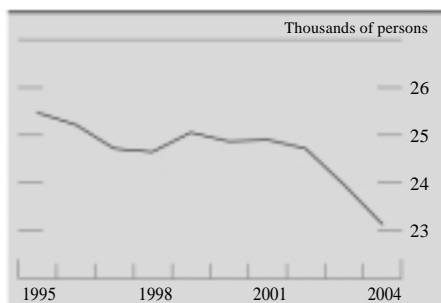


NOTE. Federal government expenses are discretionary spending less expenditures on defense.
For 2003, estimated; for 2004, budgeted.

through increased efficiencies in other areas, mainly services to the U.S. Treasury, services to financial institutions and the public, and support services. In the most recent years, the budget has grown at a slower rate, reflecting cost-reduction and efficiency initiatives.

Continued emphasis on efficiencies is reflected in lower staffing levels. Employment for 2004 is projected to decrease by 830 average number of personnel (ANP), largely because of planned staff reductions by the Reserve Banks, primarily in the check and support areas.

Chart 1.4
Employment in the Federal Reserve System, 1995–2004



NOTE. For 2003, estimated; for 2004, budgeted.

2004 Capital Budgets

The capital budget for both the Reserve Banks and the Board totals \$495.9 million. The Board's 2004–05 capital budget is \$28.5 million. The budget includes \$15.8 million for continued security enhancements and major projects in the Board's building. A more detailed discussion of the Board capital budget is included in chapter 2.

The 2004 capital budget for the Reserve Banks, Federal Reserve Information Technology (FRIT), and the Office of Employee Benefits (OEB) totals \$467.4 million, a \$60.9 million increase

from the 2003 estimated levels. The budget includes \$398.8 million for the Banks, \$67.4 million for FRIT, and \$1.2 million for OEB. As in previous years, the 2004 capital budgets include funding for projects that support the strategic direction outlined by the individual Reserve Banks' and the System's plans. These strategic goals focus on investments that improve operational efficiencies and services to Bank customers and on providing a safe, quality work environment. A more detailed discussion of Reserve Bank capital budgets is included in chapter 3. ■