

Appendix C

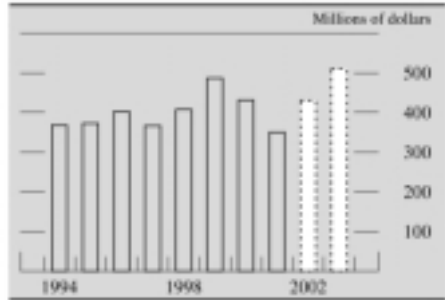
Currency Budget

Federal Reserve Banks circulate new and fit currency through depository institutions and destroy currency already in circulation as it becomes unfit or when a new design is issued. Each year, under authority delegated by the Board, the director of the Division of Reserve Bank Operations and Payment Systems orders new currency from the U.S. Department of Treasury's Bureau of Engraving and Printing (BEP). Upon reviewing the order, the BEP sets billing rates for new currency, which Board staff uses to prepare the annual budget for new currency. Once the Board approves the new currency budget, it assesses each Federal Reserve Bank through an accounting procedure similar to that used in assessing the Banks for the Board's operating expenses.

Estimated currency expenditures for 2002 totaled \$430.5 million, which is \$17.0 million, or 4.1 percent, more than budgeted (table C.1). The overrun resulted primarily from an increase in the print order and increased currency transportation costs. Budgeted currency expenditures for 2003 total \$510.3 million, or 18.5 percent more than estimated 2002 expenses (chart C.1). The increase is primarily the result of a significant increase in the billing rate for the new \$20 note

Chart C.1

Federal Reserve Budget for New Currency, 1994–2003



NOTE: For 2002, estimated; for 2003, budgeted

design and an increase in the cost of transporting new currency from the BEP to Reserve Bank offices.

Printing of Federal Reserve Notes

The Board ordered 8.2 billion new notes for the calendar year 2003 budget. The budget for printing the Board's order is \$490.9 million, or 96.2 percent of the total 2003 new currency budget. For January through September 2003 (the portion of the federal government's 2003 fiscal year that falls within the 2003 calendar year), the BEP will produce

Table C.1

Federal Reserve Budget for New Currency, 2002 and 2003

Thousands of dollars except as noted

Item	2002 (estimated)	2003 (budgeted)	Percentage change
Printing of new Federal Reserve notes	411,391	490,891	19.3
Currency transportation	12,902	13,740	6.5
Counterfeit-deterrence research	2,662	2,862	7.5
Reimbursement to the U.S. Treasury's Office of Currency Standards	3,506	2,790	-20.4
Total cost of currency	430,461	510,283	18.5

Table C.2

Projected Federal Reserve Costs of Printing New Notes, by Type of Note, 2003

Type of currency	Number of notes (millions)	Percentage of total notes	Cost per thousand notes (dollars)	Total cost (thousands of dollars)
Unthreaded (\$1s)	3,975.0	48.4	39.98	158,921
New Currency Design (\$5s)	521.9	6.3	57.00	29,748
(\$10s, \$20s, \$50s, \$100s)	2,160.2	26.3	68.75	148,516
Series-2004 (\$20)	1,560.5	19.0	98.50	153,706
Average cost			58.25	
Total	8,217.6	100		490,891

6.3 billion notes; for October through December 2003 (the remainder of the 2003 calendar year), it will produce another 1.9 billion notes.

The 2003 billing rates reflect four types of currency: unthreaded (\$1s), New Currency Design (NCD) without color-shifting ink (\$5s), NCD with color-shifting ink¹ (\$10s, \$20s, \$50s, and \$100s), and Series-2004 with new and enhanced security features (\$20s) (table C.2). During 2003, 33 percent of the notes produced will be NCD notes, 19 percent will be Series-2004 (\$20s), and the remaining 48 percent will be unthreaded (\$1s). The average price that the Board will pay the BEP for producing notes in 2003 is \$58.25 per thousand.

Currency Transportation

The currency transportation budget consists of funds for shipping new currency from the BEP and among the Reserve Banks. The 2003 currency transportation budget is \$13.7 million, which is \$838 thousand, or 6.5 percent, more than the Board estimated for 2002. The 2003 budget for new currency shipments from the BEP is \$8.4 million, or 11.1 percent,

greater than estimated 2002 expenses because of a projected increase in the cost of air shipment. The 2003 budget for currency shipments among Reserve Banks is \$5.3 million, which is unchanged from estimated 2002 expenses. These shipments move currency from Reserve Bank offices with excess fit currency to offices that would otherwise require new currency from the BEP.

Counterfeit-Deterrence Research

The 2003 budget for the counterfeit-deterrence program is \$2.9 million. The funds will support the Federal Reserve System's participation in the Central Bank Counterfeit Deterrence Group (formerly known as the SSG-2), which operates under the auspices of the G-10 governors to combat digital counterfeiting.

Treasury's Office of Currency Standards

The 2003 budget is \$2.8 million to reimburse the Treasury for Office of Currency Standards (OCS) expenses. The OCS develops standards for the cancellation, destruction, and accountability of unfit currency and processes claims for the redemption of damaged or mutilated currency. ■

1. The color of the color-shifting ink shifts from green to black as the viewing angle of the note changes.

Appendix C

Currency Budget

Federal Reserve Banks issue new and fit currency to the public through depository institutions and destroy currency already in circulation as it becomes unfit or when a new design is issued. Each year, under authority delegated by the Board, the director of the Division of Reserve Bank Operations and Payment Systems orders new currency from the U.S. Department of Treasury's Bureau of Engraving and Printing (BEP). Upon reviewing the order, the BEP establishes billing rates for new currency, which Board staff uses to prepare the annual budget for new currency. Once the Board approves the new currency budget, it assesses each Federal Reserve Bank through an accounting procedure similar to that used in assessing the Banks for the Board's operating expenses.

Estimated currency expenditures for 2003 total \$496.9 million, which is \$13.4 million, or 2.6 percent, less than budgeted (table C.1). The underrun is due primarily to a shift in note production to calendar year 2004 as a result of changing demand. Budgeted currency expenditures for 2004 total \$518.4 million, or 4.3 percent more than estimated 2003 expenses (chart C.1). The increase is due primarily to a larger calendar-year order.

Table C.1

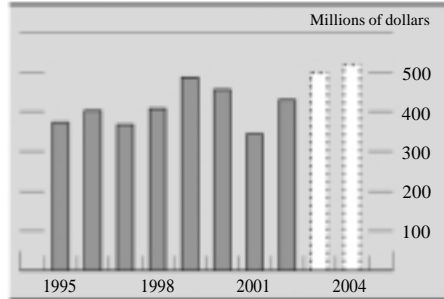
Federal Reserve Budget for New Currency, 2003 and 2004

Thousands of dollars, except as noted

Item	2003 (estimated)	2004 (budgeted)	Percentage change
Printing of new Federal Reserve notes	477,002	498,604	4.5
Currency transportation	14,075	13,126	-6.7
Counterfeit-deterrence research	2,495	3,100	24.2
Reimbursement to the U.S. Treasury's Office of Currency Standards	3,329	3,539	6.3
Total cost of currency	496,901	518,369	4.3

Chart C.1

Federal Reserve Budget for New Currency, 1995–2004



NOTE: For 2003, estimated; for 2004, budgeted

Printing of Federal Reserve Notes

The Board ordered 9.1 billion new notes for the calendar year 2004 budget. The budget for printing the Board's order is \$498.6 million, or 96.2 percent of the total 2004 new currency budget. For January through September 2004 (the portion of the federal government's 2004 fiscal year that falls within the 2004 calendar year), the BEP will produce 6.6 billion notes; for October through December 2004 (the remainder of the 2004 calendar year), it will produce another 2.4 billion notes.

Table C.2

Projected Federal Reserve Costs of Printing New Notes, by Type of Note, 2004

Type of currency	Number of notes (millions)	Percentage of total notes	Cost per thousand notes (dollars)	Total cost (thousands of dollars)
Unthreaded (\$1s)	4,408.5	48.6	39.30	173,255
New Currency Design				
(\$5s)	673.1	7.4	52.10	35,069
(\$10s, \$100s)	1,082.5	11.9	64.30	69,605
Series-2004 (\$20s, \$50s)	2,907.5	32.1	75.90	220,676
Average cost			54.90	
Total	9,071.6	100		498,604

The 2004 billing rates reflect four types of currency produced: unthreaded (\$1s), New Currency Design (NCD) without color-shifting ink (\$5s), NCD with color-shifting ink¹ (\$10s and \$100s), and Series-2004 with new and enhanced security features (\$20s and \$50s) (table C.2). During 2004, 19.3 percent of the notes produced will be NCD notes, 32.1 percent will be Series-2004 (\$20s and \$50s), and the remaining 48.6 percent will be unthreaded (\$1s). The weighted average price that the Board will pay the BEP for producing notes in 2004 is \$54.90 per thousand.

Currency Transportation

The currency transportation budget consists of funds for shipping new currency from the BEP to Reserve Banks and new and fit currency among the Reserve Banks. The 2004 currency transportation budget is \$13.1 million, which is \$949.0 thousand, or 6.7 percent less than the Board estimated for 2003. The 2004 budget for new currency shipments from the BEP is \$10.8 million, which is 9.8 percent less than estimated 2003 expenses because the number of shipments required for the issuance of the Series-

2004 \$50 note will be less than the number required for the Series-2004 \$20 note. The 2004 budget for currency shipments among Reserve Banks is \$2.3 million, which is 10.8 percent more than estimated 2003 expenses. These shipments move currency from Reserve Bank offices with excess fit currency to offices that would otherwise require new currency from the BEP.

Counterfeit-Deterrence Research

The 2004 budget for the counterfeit-deterrence program is \$3.1 million. The funds will support the Federal Reserve System's participation in the Central Bank Counterfeit Deterrence Group (formerly known as the SSG-2), which operates under the auspices of the G-10 central bank governors to combat digital counterfeiting.

Treasury's Office of Currency Standards

The 2004 budget to reimburse the Treasury for Office of Currency Standards (OCS) expenses is \$3.5 million. The OCS develops Reserve Bank standards for the cancellation, destruction, and accountability of unfit currency and processes claims for the redemption of damaged or mutilated currency. ■

1. The color of the ink shifts from green to black as the viewing angle of the note changes.