

## Chapter 3

# Federal Reserve Banks

The 1990 operating budget approved by the Board of Governors for the Federal Reserve Banks is \$1,419.0 million, an increase of \$77.6 million, or 5.8 percent, over 1989 estimated expenses.<sup>1</sup> The operating budget of the Reserve Banks excludes the costs of Systemwide special research and development projects, of which three are to be pursued in 1990 (see appendix C): digital imaging of checks (\$1.6 million), currency authentication systems (\$3.2 million), and the electronic payments processor (\$1.9 million). Including the costs of these special projects, which are declining, the System's 1990 budget is \$1,425.7 million, an increase of \$75.3 million, or 5.6 percent, over 1989 estimated expenses (table 3.1).

A major factor in the 1990 budget increase is health care costs, projected for 1990 to rise \$6.8 million, or 14.2 percent, over the estimated health care costs for 1989. This increment alone is an increase of 0.5 percent in total 1989 estimated expenses.

Employment excluding the staff associated with the special projects is budgeted at 23,890 average number of personnel (ANP), an increase of 47, or 0.2 percent, over estimated 1989 employment.<sup>2</sup> Including the special

projects, total budgeted employment is 23,913, an increase of 38, or 0.2 percent, over 1989 (table 3.1).

Expenses for personnel, which consist of salaries and benefits, account for \$904.8 million, or 64 percent, of Reserve Bank expenses in 1990, an increase of \$52.2 million, or 6.1 percent, over 1989. Nonpersonnel expenses are budgeted at \$514.1 million, an increase of \$25.4 million, or 5.2 percent. These expenses are influenced primarily by automation and building projects (table 3.2).

The following two sections discuss the major initiatives and the budget objective for the Reserve Banks in 1990. Subsequent sections provide details for the four operational areas as well as objects of expense, capital outlays, and long-term trends. Appendix C gives details on capital outlays, special projects, and other special categories of expense. Appendix F gives further data by District and by operational area.

### Major Initiatives

The 1990 increase in total expenses includes \$30.6 million in Reserve Bank initiatives (table 3.3):

- Enhanced facilities at head offices and Branch buildings
- Enhancement of fiscal agency services for the U.S. Treasury and the U.S. Department of Agriculture's Food and Nutrition Service
- Improved automation services

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

2. The term average number of personnel describes levels and changes in employment at the Reserve Banks. ANP measures the number of employees in terms of full-time positions for the time period. For instance, a full-time employee who starts work July 1 counts as 0.5 ANP for that

year; two half-time employees who start January 1 count as one ANP. The ANP for any given year is the average of the number of full time employees (measured in this way) in the months of that year.

20 *Annual Report: Budget Review, 1989-90*

- Increased supervisory examinations and inspections of banks and bank holding companies

- Enhanced check and cash operations.

Improvements in facilities throughout the System continue to increase operating expenses. The 1990 increase of \$4.9 million for such improvements primarily arise from the increased operating expenses of the new Charlotte building and the renovated Chicago building.

The \$5.7 million increase for fiscal agency services primarily reflects the enhanced services for the U.S. Treasury and the Food and Nutrition Service. The more significant expense, \$4.1 million, is for the nationwide expansion of the Regional Delivery System, which consol-

idates issuance of over-the-counter savings bonds (see chapter 4). System-wide implementation of the project, which began as a pilot program at the Federal Reserve Bank of Cleveland, will continue through 1993. A staff increase of 116 ANP is expected in 1990 and a total staff increase of 350 ANP is projected by the time the project is fully implemented. Although this initiative results in additional short-term expenses for the Federal Reserve Banks, the costs are more than offset by savings at government agencies and commercial banks.

The second fiscal agency initiative is nationwide implementation of changes requested by the Food and Nutrition Service in processing food coupons. These changes, first tested at the Memphis and Dallas offices, will add \$0.6

*Table 3.1*  
Expenses and Employment at the Federal Reserve Banks, 1989-90<sup>1</sup>

Category	1989 estimate	1990 budget	Change	
			Amount	Percent
<i>Expenses (millions of dollars)</i>				
Operations <sup>2</sup> .....	1,341.4	1,419.0	77.6	5.8
Special projects .....	9.0	6.7	.. .	.. .
Total .....	1,350.4	1,425.7	75.3	5.6
<i>Employment (average number of personnel)<sup>3</sup></i>				
Operations <sup>2</sup> .....	23,843	23,890	47	.2
Special projects .....	32	23	.. .	.. .
Total .....	23,875	23,913	38	.2

1. Excludes capital outlays. In this and the following tables, the 1990 budget does not include reductions made in conjunction with Gramm-Rudman-Hollings; see appendix G.

2. Including support and overhead (see appendix F, table F.3, note 1 for definition).

3. See text note 2 for definition of average number of personnel.

*Table 3.2*  
Operating Expenses of the Federal Reserve Banks, by Object, 1988-90<sup>1</sup>

Thousands of dollars, except as noted

Object	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Personnel.....	794,506	852,591	904,823	7.3	6.1
Nonpersonnel.....	467,873	488,797	514,149	4.5	5.2
<b>Total.....</b>	<b>1,262,378</b>	<b>1,341,388</b>	<b>1,418,972</b>	<b>6.3</b>	<b>5.8</b>

1. Including the costs of support and overhead (see appendix F, table F.3, note 1 for definition).

million and increase staff 22 ANP in 1990. Expenses for the savings bond and food coupon initiatives are fully reimbursable.

Expenses for automation projects to improve contingency back-up systems and reduce down-time will continue in 1990 at a cost of \$4.1 million. Of this, \$1.5 million will cover the increase in the Reserve Banks' share of operating expenses for the Contingency Processing Center (CPC). The \$8.4 million in other automation efforts covers expansion of computer capacity in several Districts; development of a new automated clearinghouse system; a rewrite of the book entry system; continuation of San Francisco's conversion to a new operating system; and office automation initiatives at several Districts.

The increase for supervision and regulation is primarily for additional staff members to handle the greater complexity and volume of examinations and the ongoing attention to problem institutions. Related expenses such as travel will also contribute to the increase in this area.

*Table 3.3*  
Operating Expenses Budgeted  
for Major Initiatives of the Federal  
Reserve Banks in 1990

Area of initiative	Millions of dollars	Percent of 1990 operating budget
Facilities .....	4.9	.4
Fiscal activities .....	5.7	.4
Contingency back-up .....	4.1	.3
Automation .....	8.4	.6
Supervision and regulation .....	1.5	.1
Check operations .....	4.3	.3
Currency processing .....	1.7	.1
<b>Total .....</b>	<b>30.6</b>	<b>2.2</b>
<b>MEMO</b>		
Increase in total operating expenses, 1989 estimate to 1990 budget .....	77.6	5.8

Six Districts are upgrading existing check systems at an estimated cost of \$4.3 million. In addition, New York and San Francisco will be automating their check adjustment processes.

The cost of developing a new generation of high-speed currency sorters, designed to improve labor productivity, is budgeted for 1990 at \$1.7 million.

### 1990 Budget Objective

Earlier this year, the Board approved a 1990 objective for Reserve Bank budgets, including special projects, that targeted the overall increase over 1989 expenses at 6.0 percent. The budget objective for operating expenses, which exclude special projects, targeted an increase of \$81.8 million, or 6.1 percent, over 1989 estimated expenses. The 1990 budget objective did not include funds for developing the daylight overdraft pricing system or for the Reserve Banks to absorb more of the operating expense of the CPC.

The 1990 budget compares favorably with the budget objective. Total operating expenses are increasing \$77.6 million, or 5.8 percent. (table 3.4). In addition, the expenses associated with the special projects are decreasing \$0.8 million more than originally projected. Overall, the 1990 budget increase is \$5 million less than projected when the Board approved the budget objective, despite \$2 million in unanticipated extra expense in 1990 for the daylight overdraft pricing system and the CPC.

### Operational Areas

Tables 3.5 and 3.6 summarize Reserve Bank expenses and employment in each of the four operational areas. Tables 3.7 through 3.10 show expense details for each area.

**Monetary and Economic Policy**

Expenses in 1990 for the conduct of monetary and economic policy at the Federal Reserve Banks total \$98.9 million and account for 7.0 percent of their budgets. The increase of \$5.7 million, or 6.1 percent, from estimated 1989 expenses reflects staff increases, salary administration actions, and additional equipment and data processing costs associated with automation initiatives. Employment at 786 ANP is an increase of 8 ANP over estimated 1989 levels. The 1989 employment estimate is below the approved budget because of the Banks' inability to fill all positions authorized for 1989, the number of which is the same for the 1990 budget.

Automation initiatives, all at the New York Bank, include improvements to the flow of market data for foreign exchange and open market operations; increased equipment depreciation and maintenance costs for the securities trading and clearing system, the information display system, and the office and analytical support system (OSS); the development of a new foreign exchange accounting system; and the implementation of OSS for the open market and statistics function.

**Supervision and Regulation**

Expenses for supervision and regulation, budgeted at \$214.5 million for 1990, are

*Table 3.4*  
Comparison of 1990 Budget Objective and Budget of the Reserve Banks with 1989 Estimated Expenses<sup>1</sup>

Change, percent

Item	1990 budget objective	1990 budget
Operating expenses.....	6.1	5.8
Special projects .....	-.1	-.2
<b>Total.....</b>	<b>6.0</b>	<b>5.6</b>

1. See data on expenses in table 3.1.

expected to increase \$17.6 million, or 8.9 percent, over the 1989 estimate. This operational area now constitutes 15.1 percent of total System expenses, compared with 13.6 percent in 1985. The budgeted staff level is 2,258 ANP, an increase of 36 ANP, or 1.6 percent, over 1989.

The expense increase is centered on the addition of 36 ANP and increases in compensation, travel, training, and automation. Most Districts project an increase in the number and complexity of examinations in 1990. Also, the number of supervised institutions is increasing in some Districts. Examinations deferred during 1989 because of the reallocation of resources to assist other agencies with the savings and loan crisis will be rescheduled for 1990. The remaining staff increases are in Boston, Minneapolis, and Dallas, each of which has identified a major initiative in this area. Another factor contributing to the expense increase is the program on daylight overdraft pricing.

**Services to Financial Institutions and the Public**

Expenses for services to financial institutions and the public, which include both priced and nonpriced services, are budgeted at \$947.0 million and account for two-thirds of total expenses. Expenses are increasing \$43.4 million, or 4.8 percent, over the 1989 estimate. Staffing is budgeted at 9,335 ANP, down 160 ANP, or 1.7 percent, primarily because of reductions of 18 ANP in currency, 105 ANP in commercial check, and 24 ANP in services rendered others. The reduction in services rendered others is associated with an anticipated reduction in staff assistance provided to other agencies to address problems in the savings and loan industry. Expenses of priced services are budgeted at \$622.1 million, an increase

of 4.5 percent. Expenses of the nonpriced services are budgeted to increase 5.5 percent.

Commercial check processing is by far the largest service (\$477.8 million), comprising half the budgeted expenses of this operational area and employing 5,814 ANP. The anticipated increase in expenses is \$19.9 million, or 4.3 percent, over estimated 1989 levels. (Estimated 1989 expenses are \$17.7 million, or 4.0 percent, above the approved 1989 budget because of unanticipated expenses associated with the implementation of the Expedited Funds Availability Act.) Staffing levels for 1990 include a reduction of 105 ANP resulting from the stabilization

of workloads in the commercial check, check adjustment, and check return item areas. Commercial check volume is budgeted to increase 1.5 percent; the volume of return items is expected to be stable during 1990.

Expenses for the currency service are expected to increase \$9.3 million, or 7.4 percent. The net staffing levels will decrease 18 ANP primarily because of a reduction of 11 ANP in Boston resulting from a change from dual control to limited joint control and a reduction of 12 ANP in New York related to a shift from medium-speed to high-speed currency processing. Volume will continue to increase in the currency areas. Other

Table 3.5

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1988-90

Thousands of dollars, except as noted

Operational area	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Monetary and economic policy .....	87,283	93,198	98,874	6.8	6.1
Supervision and regulation .....	185,090	196,914	214,478	6.4	8.9
Services to financial institutions and the public .....	848,481	903,546	946,973	6.5	4.8
Services to the U.S. Treasury and other government agencies .....	141,524	147,729	158,647	4.4	7.4
<b>Total</b> .....	<b>1,262,378</b>	<b>1,341,388</b>	<b>1,418,971</b>	<b>6.3</b>	<b>5.8</b>

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1988-90

Average number of personnel, except as noted<sup>1</sup>

Activity	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
<i>Operational areas</i>					
Monetary and economic policy .....	766	778	786	1.6	1.0
Supervision and regulation .....	2,209	2,222	2,258	.6	1.6
Services to financial institutions and the public .....	9,033	9,495	9,335	5.1	-1.7
Services to the U.S. Treasury and other government agencies .....	1,819	1,787	1,890	-1.7	5.7
<i>Support and overhead<sup>2</sup></i>					
Support .....	4,562	4,597	4,636	.8	.8
Overhead .....	4,951	4,962	4,985	.2	.5
<b>Total</b> .....	<b>23,337</b>	<b>23,843</b>	<b>23,890</b>	<b>2.2</b>	<b>.2</b>

1. See text note 2 for definition of average number of personnel.

2. See appendix F, table F.3, note 1 for definitions.

24 *Annual Report: Budget Review, 1989-90*

initiatives affecting this service are automation efforts in various Districts and the project to develop a second generation of high-speed currency processing equipment.

Expenses for the automated clearing-house (ACH) service are budgeted to increase \$4.0 million, or 5.3 percent, and its staffing level is expected to decrease 3 ANP. There is a shift in expense growth from government ACH to commercial ACH that corresponds to the faster growth of the latter. Total ACH volume is projected to increase 14 percent in 1990. The major initiative affecting this service is Fedline II, which is the standard intelligent-terminal software for access to Federal Reserve services.

Expenses associated with public programs are budgeted to increase \$2.9 million, or 6.8 percent. Staff levels will increase 6 ANP. The increases result from a greater involvement in regional

and public forums, provision of outreach programs, and additional efforts in the automation of mailing and subscription lists.

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

Expenses for services to the U.S. Treasury and other government agencies are budgeted at \$158.6 million, an increase of \$10.9 million, or 7.4 percent, from estimated expenses for 1989, and represent approximately 11 percent of the Reserve Banks total operating costs. Staffing levels are budgeted to increase 103 ANP, or 5.7 percent. The major initiatives driving the increases in both expenses and staff levels are the nationwide expansion of the Regional Delivery System, which consolidates issuance of over-the-counter savings bonds at one office within each District, and the nation-

*Table 3.7*

### Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1988-90

Thousands of dollars, except as noted

Service	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Economic policy determination.....	73,230	75,469	79,993	3.1	6.0
Open market trading.....	14,052	17,729	18,881	26.2	6.5
<b>Total.....</b>	<b>87,283</b>	<b>93,198</b>	<b>98,874</b>	<b>6.8</b>	<b>6.1</b>

*Table 3.8*

### Expenses of the Federal Reserve Banks for Supervision and Regulation, 1988-90

Thousands of dollars, except as noted

Service	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Supervision of District financial institutions.....	111,069	119,858	130,955	7.9	9.3
Administration of laws and regulations related to banking.....	65,634	66,664	72,138	1.6	8.2
Studies of banking and financial market structures.....	8,388	10,392	11,385	23.9	9.6
<b>Total.....</b>	<b>185,090</b>	<b>196,914</b>	<b>214,477</b>	<b>6.4</b>	<b>8.9</b>

wide expansion of changes in the requirements for processing food coupons.

By the end of 1993, the Regional Delivery System is scheduled to replace the existing network of issuing agents. Under the system, applications for savings bonds are accepted at various financial institutions and forwarded to the Federal Reserve, where the inscription data for the bond are entered into a computer data base, transmittals are balanced, accounting entries made, and the bonds are printed and mailed to the customers. During 1990 the program

will expand to cover all or parts of eight Districts (see chapter 4).

The changes in the processing of food coupons requested by the Food and Nutrition Service of the U.S. Department of Agriculture, requires Federal Reserve Banks to verify that the value of redemption certificates and the value of food coupons match in each deposit. Financial institutions are also required to encode the redemption certificates to allow their processing on check equipment and the transmittal of the data to the Minneapolis data center of the Food and Nutrition

Table 3.9

Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1988-90

Thousands of dollars, except as noted

Service	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Currency and coin	142,405	148,807	159,712	4.5	7.3
Special cash	14,101	13,669	13,383	-3.1	-2.1
Commercial checks	428,773	457,874	477,793	6.8	4.4
Other checks	17,087	20,612	21,746	20.6	5.5
Funds transfers	61,054	63,773	65,824	4.5	3.2
Automated clearinghouse	67,840	74,180	78,149	9.3	5.4
Book-entry securities transfers	25,813	28,912	31,318	12.0	8.3
Definitive securities safekeeping and noncash collection	16,742	15,654	15,956	-6.5	1.9
Loans to members and others	14,136	15,202	15,594	7.5	2.6
Public programs	40,350	43,250	46,179	7.2	6.8
Other	20,180	21,613	21,320	7.1	-1.4
<b>Total</b>	<b>848,481</b>	<b>903,546</b>	<b>946,973</b>	<b>6.5</b>	<b>4.8</b>

Table 3.10

Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1988-90

Thousands of dollars, except as noted

Service	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Savings bonds	40,700	41,191	40,999	1.2	- .5
Central operations, savings bonds		4,959	11,302		127.9
Other Treasury issues	16,589	16,943	17,304	2.1	2.1
Central operations, other Treasury issues		1,461	1,545		5.7
Central Treasury and agency services	25,970	22,823	23,413	-12.1	2.6
Government accounts	20,038	22,069	23,523	10.1	6.6
Food coupons	13,054	13,376	14,888	2.5	11.3
Other	25,177	24,906	25,673	-1.1	3.1
<b>Total</b>	<b>141,524</b>	<b>147,730</b>	<b>158,647</b>	<b>4.4</b>	<b>7.4</b>

26 *Annual Report: Budget Review, 1989-90*

Services via FRCS-80, the Federal Reserve's data communications system. These procedures were successfully tested in the Dallas and Memphis territories for the six months ending March 1989.

### Objects of Expense

Operating expenses for personnel comprise officer and employee salaries, other compensation to personnel, and retirement and other benefits. Total personnel costs account for 63.8 percent of Reserve Bank expenses and are expected to increase 6.1 percent in 1990 (table 3.11).

Salaries and other personnel expenses account for nearly 52 percent of 1990 budgeted expenses and are expected to be

\$35.4 million, or 5.0 percent, above estimated 1989 expenses. Salaries are budgeted to increase \$38.3 million, or 5.6 percent, and will be partially offset by a decline in other personnel expenses of \$2.9 million, or 22.5 percent. The decrease in other personnel expenses results from a declining use of personnel agencies. Merit pay increases of \$34.7 million, or 5.0 percent, are the primary reason for salary expense growth. Also contributing to additional salary expenses are promotions, reclassifications, structure adjustments, and staffing level increases. These increases are partially offset by short-term position vacancies and reduced overtime.

Expenses for retirement and other benefits, which account for 11.8 percent

Table 3.11

#### Operating Expenses of the Federal Reserve Banks, by Object, 1988-90

Thousands of dollars, except as noted

Object	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
<b>PERSONNEL</b>					
Officers' salaries .....	64,044	67,707	72,561	5.7	7.2
Employees' salaries .....	581,888	621,451	654,928	6.8	5.4
Other personnel <sup>1</sup> .....	15,349	13,057	10,116	-14.6	-22.5
Retirement and benefits .....	133,224	150,377	167,219	12.9	11.2
<b>Total personnel</b> .....	<b>794,506</b>	<b>852,591</b>	<b>904,823</b>	<b>7.3</b>	<b>6.1</b>
<b>NONPERSONNEL</b>					
Forms and supplies .....	51,049	53,215	54,812	4.2	3.0
Equipment .....	153,809	159,848	172,638	3.9	8.0
Software .....		25,944	28,826		11.1
Shipping .....	81,969	82,821	84,540	1.0	2.1
Travel .....	25,263	27,165	28,182	7.5	3.7
<b>Buildings</b>					
Insurance .....	750	674	718	-10.1	6.5
Taxes on Real Estate .....	23,983	25,082	28,770	4.6	14.7
Property Depreciation .....	28,408	30,923	34,993	8.9	13.2
Utilities .....	22,981	24,337	26,128	5.9	7.4
Rent .....	21,682	21,150	22,062	-2.5	4.3
Other .....	18,073	18,767	18,460	3.8	-1.6
<b>Total buildings</b> .....	<b>115,877</b>	<b>120,932</b>	<b>131,129</b>	<b>4.4</b>	<b>8.4</b>
Recoveries .....	-34,276	-35,058	-37,527	2.3	7.0
All other <sup>2</sup> .....	74,184	53,930	51,548	-27.3	-4.4
<b>Total nonpersonnel</b> .....	<b>467,873</b>	<b>488,797</b>	<b>514,149</b>	<b>4.5</b>	<b>5.2</b>
<b>Total</b> .....	<b>1,262,378</b>	<b>1,341,388</b>	<b>1,418,972</b>	<b>6.3</b>	<b>5.8</b>

1. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.

2. Communications, fees, other, contra-expenses,

shared costs received, support cost distributed, support cost received, and other.

of Reserve Bank budgets, are anticipated to increase \$16.8 million, or 11.2 percent, in 1990. This increase is the result of continued escalation in hospital and medical costs and a rise in the social security tax.

Nonpersonnel expenses account for 36.2 percent of Reserve Bank expenses and are projected to increase 5.2 percent in 1990. Equipment expenses are expected to increase 8.0 percent and to account for 12.2 percent of total costs in 1990. Most of the increase is for depreciation, reflecting acquisitions to expand data processing and data communications because of increased workloads and the full-year effect of equipment purchased in 1989.

Software expenses are projected to increase \$2.9 million, or 11.1 percent, in 1990 as the result of purchases for mainframes and personal computers and of higher rates for licenses and maintenance fees.

Shipping costs account for 6.0 percent of the 1990 budget and are projected to increase 2.1 percent in 1990. The increase is primarily the result of rate increases by contract carriers and carriers supporting the InterDistrict Transportation System. Partially offsetting the 1990 increase is the reduction in postage

expense due to a lower projected volume in the fiscal area.

Building expenses, which account for 9.2 percent of total expenses, are expected to increase 8.4 percent in 1990. The newly renovated Chicago office, the Atlanta addition and renovation, and the full-year effects of the Charlotte Branch contribute to higher costs for property depreciation and utilities. These projects, along with the Dallas building project, are expected to increase real estate taxes \$3.7 million, or 14.7 percent. The \$0.3 million decline in other building expenses is the result of the completion of renovations at the New York Bank.

Recoveries are expected to increase \$2.5 million, or 7.0 percent, in 1990, primarily because of new leases with outside organizations in the New York and Chicago offices.

Other nonpersonnel expenses are projected to decrease \$2.4 million, or 4.4 percent, mainly because consulting contracts on building facilities at several Reserve Banks have been completed.

### Capital Outlays

Capital Outlays are budgeted at \$274.9 million, an increase of \$57.2 million, or 26.3 percent, above the 1989 estimate

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1988-90

Thousands of dollars, except as noted

Class of outlay	1988 actual	1989 estimate	1990 budget	Percent change	
				1988-89	1989-90
Data processing and data communications equipment .....	78,048	70,842	133,150	-9.2	88.0
Furniture, furnishings and fixtures .....	11,684	14,079	15,895	10.5	12.9
Other equipment .....	12,050	16,196	24,964	34.4	54.1
Land and other real estate .....	368	55,218	5,126	...	-90.7
Buildings .....	55,165	48,365	80,368	-12.3	66.2
Building machinery and equipment .....	7,574	11,172	14,229	47.5	27.4
Leasehold improvements .....	2,256	1,884	1,210	-16.5	-35.8
<b>Total .....</b>	<b>167,144</b>	<b>217,756</b>	<b>274,940</b>	<b>30.3</b>	<b>26.3</b>

(table 3.12). The capital budgets continue to be dominated by outlays for data processing and data communications equipment and for buildings.

Outlays for data processing and data communications equipment are \$133.1 million in 1990 and constitute approximately 48 percent of total capital outlays. The major expenses in this category are for new mainframes and computer upgrades (\$39.0 million), controllers (\$5.8 million), and check equipment (\$35.9 million).

Building outlays total \$80.4 million, or about 29.2 percent of total outlays; most of the expense is for additions and improvements. Purchases of furniture and other equipment are budgeted at \$40.9 million, much of it for relocation and extensive refurbishing in five Districts. In addition, outlays for new automated currency processing equipment are included for nine Districts at a total cost of \$4.6 million. Outlays for building machinery and equipment are budgeted at \$14.2 million.

Purchases of land and other real estate in 1990 are set at \$5.1 million, primarily for land for the Cleveland building project. Leasehold improvements total \$1.2 million, mainly for tenant improvements in the Philadelphia District (\$0.4 million) and the Chicago District (\$0.5 million).

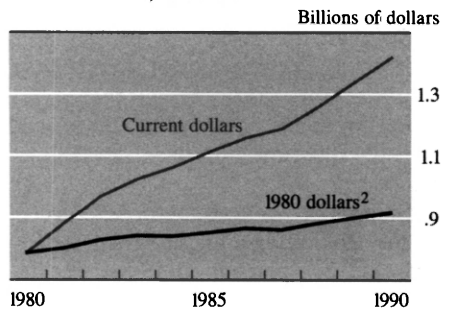
### Trends in Expenses and Employment

For the ten years ending in 1990, operating expenses of the Reserve Banks in current dollars will have increased an average of 6.0 percent per year (chart 3.1). Increases were larger during the early 1980s, when the Banks began implementing the requirements of the Monetary Control Act (MCA). During the period 1980 to 1983, expenses increased an average of 9.1 percent per

year. The more recent period, 1984 to 1990, shows a much lower trend, with expenses rising an average of 4.9 percent per year. Figured in 1980 dollars, the annual rate of growth over the ten-year period averaged 1.5 percent.

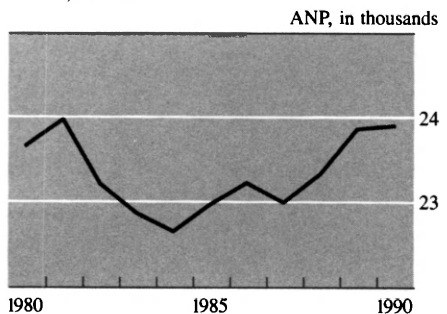
Over the last decade the number of employees at the Reserve Banks has increased 231 ANP, or 0.1 percent per year (chart 3.2). Employment at the Reserve Banks peaked at 26,567 ANP in 1974; it then declined a total of 3,624 ANP, or 13.6 percent, during the next

Chart 3.1  
Operating Expenses of the Federal Reserve Banks, 1980-90<sup>1</sup>



1. For 1989, estimate; for 1990, budget.
2. Calculated with the GNP price deflator.

Chart 3.2  
Employment at the Federal Reserve Banks, 1980-90<sup>1</sup>



1. For 1989, estimate; for 1990, budget. See text note 2 for definition of ANP.

five years under a Systemwide program to increase productivity. Employment increased in 1980 and 1981 because of the MCA. Over the next three years, however, employment declined a total of 1,320 ANP, or 5.5 percent, to reach a level of 22,669 ANP in 1984, the lowest level in the 1980-90 period. Employment in 1987 declined 229 ANP in part because of budget restraint in the spirit of the Gramm-Rudman-Hollings legislation. Employment increased 335 ANP in 1988 and is estimated to have increased 494 ANP in 1989 primarily as a result of implementing the provisions of the Expedited Funds Availability Act. In 1990, employment is budgeted to increase 47 ANP.

### Volume and Unit Cost

Volume for all measured operations in 1990 is expected to increase 3.0 percent over 1989, while unit costs are expected to rise 1.8 percent in current dollars (table 3.13). Over the five years from

1985 to 1990, the average annual growth rate will thus be 3.8 percent for volume and 0.01 percent for unit costs. The increase in unit costs expected for 1990 arises from initiatives in the fiscal area and from operational changes that are producing a fall-off in the volume of coin.

### 1989 Budget Performance

The Board in December 1988 approved 1989 Reserve Bank budgets totaling \$1,330.5 million, an increase of \$69.2 million, or 5.5 percent, over estimated 1988 expenses. The Reserve Banks now estimate 1989 expenses at \$1,341.4 million, which is \$10.9 million, or 0.8 percent, over the 1989 budget and 6.3 percent over actual 1988 expenses. Nine Reserve Banks estimate that their 1989 spending will exceed their 1989 budgets, although six of the nine expect the excess will be less than 1 percent. The budget overruns are due to several unanticipated events: higher costs for activities covered by the Expedited Funds Availability Act (EFA); the crisis in the savings and loan industry; and a change in the allocation of Contingency Processing Center (CPC) costs between the Board and the Reserve Banks.

In planning activities under EFA, the Reserve Banks underestimated the volume of return items and overestimated their quality. The cost of EFA-related activities is now estimated at \$29.2 million, \$9.9 million more than the \$19.3 million budgeted. Eleven Reserve Banks have excess EFA-related expenses; the largest are being reported by Atlanta, whose entire budget overrun of \$3.0 million is for EFA, and San Francisco, whose total overrun of \$4.1 million contains \$2.5 million of unbudgeted EFA costs. (Another major factor in San Francisco's total overrun is an unplanned 18.8 percent increase in the volume of

Table 3.13

Changes from 1989 to 1990 in Volumes and Unit Costs of Federal Reserve Bank Services

Percent

Service	Volume	Unit cost
Payments .....	3.6	.5
Commercial checks .....	1.5	2.3
Automated clearinghouse .....	14.1	-7.6
Funds transfers .....	5.5	-2.0
Other .....	2.1	3.0
Cash .....	2.9	3.7
Currency .....	4.6	2.6
Coin .....	-6.9	10.2
Fiscal agency .....	1.3	5.6
Savings bonds .....	6.8	5.3
Other Treasury issues .....	-13.0	7.1
Other fiscal agency .....	2.2	6.2
Treasury Direct .....	-6.3	3.5
Securities and noncash services .....	-7.6	10.7
<b>All .....</b>	<b>3.0</b>	<b>1.8</b>

currency handled at the Los Angeles Branch, which raised processing costs \$1.1 million.)

The continuing attention to problem banks and savings and loan institutions contributed to the estimated \$1.8 million overrun in the Dallas District. Dallas added resources to handle unbudgeted growth of volume in the payments and fiscal areas that resulted when depository institutions shifted their activities in these areas to the Dallas Bank. In addition, Dallas added resources to address the District's growing requirements for inspection, examination, surveillance, and monitoring of problem financial institutions.

The unanticipated change in the allocation of CPC costs between the Board and the Reserve Banks raised the share of the Reserve Banks \$1.8 million. ■

## Chapter 3

# Federal Reserve Banks

The 1991 operating budget approved by the Board of Governors for the Federal Reserve Banks is \$1,501.0 million, an increase of \$86.4 million, or 6.1 percent, over 1990 estimated expenses. The operating budget of the Reserve Banks excludes the Systemwide costs of special research and development projects relating to the digital imaging of checks (\$3.7 million) and the authentication of currency (\$3.9 million). Including the costs of these special projects, the System's 1991 budget is \$1,508.6 million, an increase of \$87.4 million (table 3.1).

Employment excluding the staff associated with the special projects is budgeted at 23,861 average number of personnel (ANP), an increase of 163, or 0.7 percent, over estimated 1990 employment.<sup>1</sup> Including the special projects, total budgeted employment is 23,862.

Expenses for personnel, which consist of salaries and benefits, account for \$969.1 million, or 65 percent, of Reserve Bank expense in 1991—an increase of \$67.6 million, or 7.5 percent, over 1990. Of the increases in overall benefits, medical insurance is increasing \$10.6 million, or 16.2 percent. Nonpersonnel expenses are budgeted at \$531.9 million, an increase of \$18.8 million, or 3.7 percent. These expenses are influenced

primarily by automation and building projects (table 3.2).

The following two sections discuss the major initiatives and the budget objective for the Reserve Banks in 1991. Subsequent sections provide details for the four operational areas as well as objects of expense, capital outlays, and long-term trends. Appendix C gives details on capital outlays, special projects, and other special categories of expense. Appendix F gives further data by District and by operational area.

### Major Initiatives

The 1991 increase in total expenses includes \$30.0 million in Reserve Bank initiatives (table 3.3):

- Projects to enhance facilities at head offices and branches
- Expanded programs for the U.S. Treasury Department
- Enhanced automation efforts
- Increased supervisory examinations and inspections of banks and bank holding companies
- Enhanced check and cash operations.

Improvements in facilities throughout the System will add \$8.2 million in 1991. Of this increase, projects relating to buildings account for \$2.7 million. Transitional costs associated with New York's East Rutherford Operations Center (EROC) are largely responsible for this increase. Other contributors are greater operating expenses at the Charlotte Branch and ongoing projects to improve facilities at the Cleveland, St. Louis, and Kansas City offices. Projected increases

1. The term *average number of personnel* describes levels and changes in employment at the Reserve Banks. ANP measures the number of employees in terms of full-time positions for the time period. For instance, a full-time employee who starts work July 1 counts as 0.5 ANP for that year; two half-time employees who start January 1 count as one ANP. The ANP for any given year is the average number of full-time employees (measured in this way) in the months of that year.

22 *Annual Report: Budget Review, 1990-91*

in real estate taxes, due primarily to recently completed building projects, will add \$5.5 million in building-related expenses.

Expenses for fiscal services are projected to increase \$4.9 million. Of the overall increase, \$4.2 million will be incurred as the System moves toward nationwide implementation of the Regional Delivery System (RDS), which involves centralized issuance of over-the-counter savings bonds. Full implementation of this project will continue through 1993. A staff increase of 141 ANP is expected in 1991, and a total staff increase of 350 ANP is projected by the time the RDS project is fully implemented. Increases in RDS staff will be partially offset by decreases in staff in other savings bond activities. Expense in-

creases relating to improved services for the Treasury include (1) an additional 15 ANP to handle the processing of savings bonds at the Pittsburgh Branch on high-speed check-processing equipment (EZ Clear) and (2) expense increases related to the continued growth in the Masterfile program in Minneapolis. This Masterfile program involves the centralized processing for corporations of payroll deductions for savings bonds. Expenses incurred in connection with the savings bond initiatives are fully reimbursable.

The System will partially offset increased expenses related to fiscal services by improvements in operations and by the centralization of definitive and noncash operations. These initiatives will reduce expenses by \$1.2 million and staffing by 35 ANP in 1991. Most savings

**Table 3.1**  
Expenses and Employment at the Federal Reserve Banks, 1990-91<sup>1</sup>

Category	1990 estimate	1991 budget	Change	
			Amount	Percent
<i>Expenses (millions of dollars)</i>				
Operations <sup>2</sup> .....	1,414.6	1,501.0	86.4	6.1
Special projects .....	6.6	7.6	1.0	. . .
Total .....	1,421.2	1,508.6	87.4	6.1
<i>Employment (average number of personnel)<sup>3</sup></i>				
Operations <sup>2</sup> .....	23,698	23,861	163	.7
Special projects .....	26	1	-25	. . .
Total .....	23,724	23,862	138	.6

1. Excludes capital outlays.

2. Includes support and overhead (see appendix F, table F.3, note 1, for definition).

3. See text note 1 for the definition of average number of personnel.

**Table 3.2**  
Operating Expenses of the Federal Reserve Banks, by Object, 1989-91<sup>1</sup>

Thousands of dollars, except as noted

Object	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
Personnel .....	851,330	901,463	969,121	5.9	7.5
Nonpersonnel .....	499,156	513,102	531,844	2.8	3.7
<b>Total</b> .....	<b>1,350,486</b>	<b>1,414,565</b>	<b>1,500,965</b>	<b>4.7</b>	<b>6.1</b>

1. Includes the costs of support and overhead (see appendix F, table F.3, note 1, for definitions).

are due to operational improvements in San Francisco resulting primarily from continued efforts at centralization.

The System will continue automation projects relating to contingency, increased computer capacity, and office automation. These initiatives are projected to increase 1991 expenses \$4.7 million. A computer upgrade will occur at Richmond. The New York, Chicago, and Minneapolis offices will have increased operating expenses associated with new control processing units (CPUs) purchased in 1990.

Several Reserve Banks have identified initiatives in supervision and regulation. Totalling \$4.0 million, these initiatives stem primarily from the need for additional staff to handle increases in workloads due to the greater complexity of examinations, more holding company examinations, increased examination of foreign banks, and more problem institutions. Related expenses, such as travel, will also contribute to the increase in this area.

*Table 3.3*  
Operating Expenses Budgeted  
for Major Initiatives of the Federal  
Reserve Banks in 1991

Area of initiative	Millions of dollars	Percent of 1991 operating budget
Facility improvements .....	8.2	.6
Fiscal initiatives .....	4.9	.3
Fiscal consolidation efforts ...	-1.2	-.1
Contingency and automation initiatives .....	4.7	.3
Supervision and regulation ....	4.0	.3
Enhanced check operations ...	5.5	.4
Check operational improvements .....	-2.8	-.2
Currency initiatives .....	2.2	.2
Thrift plan .....	4.5	.3
<b>Total .....</b>	<b>30.0</b>	<b>2.1</b>
<b>MEMO</b>		
Increase in total operating expenses, 1990 estimate to 1991 budget .....	86.4	6.1

Five Banks have budgeted a total of \$4.5 million to upgrade existing check system software to improve efficiency. In addition, San Francisco has budgeted \$1.0 million to improve check-processing operations through programs for developing efficiency and effectiveness and through the expanded use of automation in adjustments. The increase in the cost in check operations is partially offset by staff reductions of 97 ANP resulting from the experience gained in the handling of return items, reductions in adjustment backlogs, automated adjustment systems, and the pilot on return-item intermingling in Minneapolis and Dallas.

The System anticipates spending \$2.2 million in 1991 related to expanded initiatives in currency processing. Increases are primarily in San Francisco for expansion in processing and storage capacity in response to continued growth in volume and for cash-automation projects to improve custody controls and management information.

The increase in the Reserve Banks' share of the matching contribution for the thrift plan is estimated to add \$4.5 million to System expenses in 1991.

### 1991 Budget Objective

Earlier this year, the Board approved a 1991 objective for Reserve Bank budgets that targeted the increase in total operating expenses over 1990 projected expenses at 6.6 percent. This objective excluded two special projects, check imaging and counterfeit deterrence, whose expenses were projected to increase slightly in 1991. Including the costs of the special projects did not change the overall projected growth in expenses.

The 1991 budget increase compares favorably with the budget objective. Total operating expenses are projected to increase by \$86.4 million, or 6.1 percent,

**Table 3.4**  
Comparison of 1991 Budget Objective  
and Budget of the Reserve Banks  
with 1990 Estimated Expenses<sup>1</sup>

Change, percent

Item	1991 budget objective	1991 budget
Operating expenses .....	6.6	6.1
Special projects .....	0.0	0.0
<b>Total</b> .....	<b>6.6</b>	<b>6.1</b>

1. See data on expenses in table 3.1.

and the expenses associated with the special projects are increasing by \$1.0 million (tables 3.1 and 3.4). Overall, the increase in the 1991 budget is \$6.9 million less than projected when the Board approved the budget objective, which had not included sufficient funding for supervision and regulation. Also, a project to rewrite the software of the planning and control system (PACS), which was not included in the System budget objective, is now planned for 1991.

The increase in the expense for supervision and regulation is \$6.0 million more than projected during the 1991 budget objective setting. The condition of banks in the Northeast and the expansion of examination programs throughout the System will require additional staff and

office space for supervision. However, the increase in expenses for financial services, which is \$10.8 million less than projected in the budget objective, more than offsets the incremental increase in supervision and regulation.

The System plans in 1991 to rewrite its software to account for operating expenses. PACS provides a uniform accounting and reporting structure so that the operating expenses of all Federal Reserve Banks will be collected and reported on a comparable basis. The budget objective had not included funds for rewriting the PACS software, and this project is expected to increase System expenses in 1991 by \$1.0 million.

## Operational Areas

Tables 3.5 and 3.6 summarize Reserve Bank expenses and employment in each of the four operational areas. Tables 3.7 through 3.10 show expense details for each area.

## Monetary and Economic Policy

The 1991 budget increase of \$7.9 million, or 7.9 percent, above the 1990 estimate of expense reflects an increase in staff of 14 ANP, salary administration actions, increased equipment and data-processing costs associated with automation initia-

**Table 3.5**  
Operating Expenses of the Federal Reserve Banks, by Operational Area, 1989-91

Thousands of dollars, except as noted

Operational area	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
Monetary and economic policy .....	93,554	99,660	107,512	6.5	7.9
Services to the U.S. Treasury and other government agencies .....	145,546	156,137	167,223	7.3	7.1
Services to financial institutions and the public .....	916,310	944,392	992,076	3.1	5.0
Supervision and regulation .....	195,076	214,376	234,155	9.9	9.2
<b>Total</b> .....	<b>1,350,486</b>	<b>1,414,565</b>	<b>1,500,965</b>	<b>4.7</b>	<b>6.1</b>

tives, and the allocated costs of various System Projects (Fedline II, Automation Consolidation, and the National Information Center). The addition of personnel brings the 1991 level of staff to that approved in the 1990 budget. The 1990 estimate is below the approved budget because of attrition and the lag in finding qualified replacements.

At the District level, New York has budgeted for automation initiatives that include equipment upgrades to its office and analytical support system (OSS), increased maintenance costs for the new security trading and clearing system (STACS), and the development of a foreign exchange replacement system.

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

The 1991 budget is projected to be \$11.1 million, or 7.1 percent, greater than the 1990 estimate of expenses. Staffing levels are expected to increase by 75 ANP. The major initiative driving the increases in both expenses and staff is the nationwide expansion of the RDS, which consolidates the issuance of over-the-counter savings bonds at one office in each District. RDS volume is expected to increase by 5.4 million bonds in 1991. Partially offsetting this increase is the shift of the volume of retired savings bonds from the fiscal area to the other

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1989-91

Average number of personnel, except as noted <sup>1</sup>

Activity	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
<i>Operational areas</i>					
Monetary and economic policy .....	783	773	786	-1.2	1.7
Services to the U.S. Treasury and other government agencies .....	1,771	1,837	1,912	3.7	4.1
Services to financial institutions and the public .....	9,423	9,304	9,227	-1.3	-.8
Supervision and regulation .....	2,198	2,229	2,305	1.4	3.4
<i>Support and overhead<sup>2</sup></i>					
Support .....	4,552	4,583	4,646	.7	1.4
Overhead .....	4,948	4,973	4,986	.5	.3
<b>Total .....</b>	<b>23,674</b>	<b>23,698</b>	<b>23,861</b>	<b>.1</b>	<b>.7</b>

1. See text note 1 for the definition of average number of personnel.

2. See appendix F, table F.3, note 1, for definitions.

Table 3.7

Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1989-91

Thousands of dollars, except as noted

Service	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
Economic policy determination .....	76,865	81,232	87,574	5.7	7.8
Open market trading .....	16,689	18,428	19,938	10.4	8.2
<b>Total .....</b>	<b>93,554</b>	<b>99,660</b>	<b>107,512</b>	<b>6.5</b>	<b>7.9</b>

26 *Annual Report: Budget Review, 1990-91*

check area (EZ Clear Activity). This shift in cost occurs because savings bonds under EZ Clear are processed on check equipment. The processing of redeemed bonds through EZ Clear becomes mandatory on February 1, 1991.

### Services to Financial Institutions and the Public

The 1991 budget for these services, which include both the priced and non-priced operations, is expected to total \$992.1 million, an increase of \$47.7 million, or 5.0 percent, above 1990

estimates. Staffing levels are to be reduced 77 ANP, primarily in commercial check processing (-97 ANP) and non-cash collection (-11 ANP). These decreases are partially offset by staff increases in other check processing (30 ANP) associated with the government check and the EZ Clear operations.

Commercial check processing is by far the largest component of this category of services (\$492.0 million); it composes half of the category's budgeted expenses and employs 5,686 ANP. The anticipated increase in expenses is \$15.5 million, or 3.3 percent, over estimated 1990 levels.

*Table 3.8*

Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1989-91

Thousands of dollars, except as noted

Service	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
Savings bonds.....	40,512	40,085	39,117	-1.1	-2.4
Central operations, savings bonds.....	5,075	13,554	21,676	167.1	59.9
Other Treasury issues.....	16,474	15,803	16,288	-4.1	3.1
Central operations, other Treasury issues.....	1,439	1,425	1,369	-1.0	-4.0
Central Treasury and agency services.....	22,601	21,987	22,452	-2.7	2.1
Government accounts.....	21,616	23,455	23,878	8.5	1.8
Food coupons.....	13,328	14,887	15,562	11.7	4.5
Other.....	24,501	24,941	26,880	1.8	7.8
<b>Total.....</b>	<b>145,546</b>	<b>156,137</b>	<b>167,223</b>	<b>7.3</b>	<b>7.1</b>

*Table 3.9*

Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1989-91

Thousands of dollars, except as noted

Service	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
Currency and coin.....	147,717	157,316	166,656	6.5	5.9
Special cash.....	13,693	13,500	14,734	-1.4	9.1
Commercial checks.....	470,200	476,516	492,044	1.3	3.3
Other checks.....	21,098	25,074	27,521	18.8	9.8
Funds transfers.....	63,153	64,672	70,035	2.4	8.3
Automated clearinghouse.....	74,364	78,840	83,437	6.0	5.8
Book-entry securities transfers.....	29,145	30,117	34,157	3.3	13.4
Definitive securities safekeeping and noncash collection.....	16,048	14,884	14,470	-7.3	-2.8
Loans to members and others.....	15,135	15,216	15,911	.5	4.6
Public programs.....	42,471	44,764	48,704	5.4	8.8
Other.....	23,286	23,492	24,408	.9	3.9
<b>Total.....</b>	<b>916,310</b>	<b>944,392</b>	<b>992,076</b>	<b>3.1</b>	<b>5.0</b>

The reduction of 97 ANP in commercial check processing results from experience gained in the handling of return items, reductions in adjustment backlogs, efficiencies gained through the implementation of automated adjustment systems in several Districts, and the return item intermingling pilot in Minneapolis and Dallas. Also contributing to the low expense growth is the return to a more normal level of check write-offs associated with unlocated differences, primarily at the Federal Reserve Bank of Philadelphia. Commercial check volume and unit cost are both budgeted to increase 1.3 percent.

Expenses for the currency service are expected to increase \$8.1 million, or 6.1 percent. Staffing levels will increase 6 ANP primarily because of increases in San Francisco (16 ANP) and Cleveland (4 ANP) that are associated with adding shifts to process currency. Partially offsetting these increases are productivity gains in several other Districts. The major initiative affecting this service is the second generation currency equipment project.

The automated clearinghouse (ACH) service is budgeted to increase \$4.6 million, or 5.8 percent. Total ACH volume is projected to have an increase of 15.0 percent in 1991, which will result in a 7.5 percent decrease in unit cost. Major initiatives affecting this service are the

conversion to an all-electronic ACH and the Future ACH System project.

Expenses for the transfer of reserve account balances are expected to increase by \$5.4 million, or 8.3 percent. The staff level will increase by 3 ANP. The increase in costs results primarily from increases in personnel costs; increases in data communications costs due to a change in the accounting rules; and procedural changes resulting from the implementation of the UCC-4A regulations, which will require the Federal Reserve to improve its security procedures for off-line banks.

### Supervision and Regulation

The expense increase of \$19.8 million, or 9.2 percent, is centered on the addition of 76 ANP and on increases in compensation, travel, training, and automation. The effect over a full year of special salary adjustments given examiners in several Districts during 1990 also contributes to the year-over-year increase in expense. The additional demands on the Federal Reserve's examination staff have necessitated increases in personnel. These increased demands on staff include expanded bank examination programs, improved supervision of foreign banking agencies in the United States, the broadening level of detail covered in the examination process, compliance with

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1989-91

Thousands of dollars, except as noted

Service	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-91	1990-91
Supervision of District financial institutions .....	119,983	133,874	146,597	11.6	9.5
Administration of laws and regulations related to banking .....	64,899	69,305	75,663	6.8	9.2
Studies of banking and financial market structures .....	10,194	11,197	11,895	9.8	6.2
<b>Total</b> .....	<b>195,076</b>	<b>214,376</b>	<b>234,155</b>	<b>9.9</b>	<b>9.2</b>

28 *Annual Report: Budget Review, 1990-91*

the Financial Institution Referral and Recovery Enforcement Act (FIRREA) and Bank Secrecy Act, intensified surveillance of problem financial institutions, and increased focus on the requirements of the Community Reinvestment Act. Expenses are also affected by the initiative addressing payments system risk and that addressing daylight overdraft pricing.

### Objects of Expense

Personnel expenses are composed of salaries for officers and employees, other compensation to personnel, and retirement and other benefits. Total personnel costs account for 64.5 percent of Reserve

Bank expenses and are expected to increase 7.5 percent in 1991 (table 3.11).

Salaries and other personnel expenses account for nearly 52.2 percent of 1991 budgeted expenses and anticipated growth is \$45.8 million, or 6.2 percent. Salaries are expected to increase \$47.5 million, or 6.5 percent, and will be partially offset by a decline of \$1.7 million in other personnel expenses resulting from the decreasing use of outside agency help. Merit pay increases of \$37.1 million, or 5.1 percent, are the primary reason for salary expense growth. Also contributing to additional salary expenses are promotions, reclassifications, structure adjustments, and increases in staffing levels. These increases are partially offset by

*Table 3.11*  
Operating Expenses of the Federal Reserve Banks, by Object, 1989-91

Thousands of dollars, except as noted

Object	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
<b>PERSONNEL</b>					
Officers' salaries .....	68,114	73,470	79,280	7.9	7.9
Employees' salaries .....	617,745	652,894	694,599	5.7	6.4
Other personnel <sup>1</sup> .....	14,946	11,352	9,633	-24.0	-15.1
Retirement and benefits .....	150,524	163,748	185,610	8.8	13.4
Total personnel .....	851,330	901,463	969,121	5.9	7.5
<b>NONPERSONNEL</b>					
Forms and supplies .....	54,372	54,275	55,682	-.2	2.6
Equipment .....	158,131	163,229	174,525	3.2	6.9
Software .....	..	31,433	31,497	..	-.2
Shipping .....	82,159	83,789	86,920	2.0	3.7
Travel .....	27,214	29,506	30,471	8.4	3.3
<b>Buildings</b>					
Insurance .....	661	737	770	11.6	4.4
Taxes on real estate .....	23,302	22,594	28,529	-3.0	26.3
Property depreciation .....	30,712	34,022	37,087	10.8	9.0
Utilities .....	24,831	26,346	27,443	6.1	4.2
Rent .....	21,245	22,065	23,861	3.9	8.1
Other .....	19,734	18,536	18,647	-6.1	-.6
Total buildings .....	120,485	124,300	136,336	3.2	9.7
Recoveries .....	-34,609	-34,289	-35,265	-.9	2.8
All other <sup>2</sup> .....	91,404	60,860	51,678	-33.4	-15.1
Total nonpersonnel .....	499,155	513,102	531,844	2.8	3.7
<b>Total</b> .....	<b>1,350,486</b>	<b>1,414,565</b>	<b>1,500,965</b>	<b>4.7</b>	<b>6.1</b>

1. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.

2. Communications, fees, contra-expenses, shared

costs received, shared costs distributed, support cost distributed, support cost received, and other.

short-term position vacancies due to lags in hiring and by reductions in expenses for overtime.

Expenses for retirement and other benefits, which account for 12.3 percent of Reserve Bank budgets, are anticipated to increase \$21.9 million, or 13.4 percent, in 1991. This increase is the result of continued escalation in hospital and medical costs, a rise in the Social Security tax, and an increase in the thrift plan match in 1991.

Nonpersonnel expenses account for 35.5 percent of Reserve Bank expenses and are projected to increase 3.7 percent in 1991.

Equipment expenses are expected to increase 6.9 percent and account for 11.6 percent of total expenses in 1991. The \$9.7 million, or 11.4 percent, increase in depreciation results from acquisitions to expand data-processing and data-communications capabilities because of increased workloads and the full-year effect of equipment purchased in 1990.

Shipping costs account for 5.8 percent of the 1991 budget and are projected to increase 3.7 percent in 1991. The increase is primarily the result of a substantial increase in postal rates scheduled for early 1991, an increase in the shared cost of operating the interdistrict transportation system (ITS), and some cost in-

creases that result from rebidding local transportation contracts.

Building expenses, which account for 9.1 percent of total expenses, are expected to increase 9.7 percent in 1991 because of higher real estate taxes in several Districts and the full-year effect of recently completed capital projects.

Recoveries are expected to increase \$1.0 million, or 2.8 percent, in 1991. Other nonpersonnel expenses are projected to decrease \$6.7 million, or 3.8 percent.

### Capital Outlays

Capital outlays are budgeted at \$328.4 million, an increase of \$68.7 million, or 26.5 percent, above the 1990 estimate (table 3.12). The Reserve Banks' capital budgets continue to be dominated by outlays for data-processing and data-communications equipment and for building projects.

Outlays for data-processing and data-communications equipment total \$77.0 million in 1991, approximately 23 percent of total capital outlays. These expenses include outlays for storage devices such as tapes and disks (\$20.3 million); for CPUs, including processors, channels, and memory (\$12.2 million); and

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1989-91

Thousands of dollars, except as noted

Class of outlay	1989 actual	1990 estimate	1991 budget	Percent change	
				1989-90	1990-91
Data-processing and data-communications equipment .....	62,183	114,657	77,043	84.4	-32.8
Buildings .....	36,645	73,170	139,514	99.7	90.7
Furniture, furnishings, and fixtures .....	14,664	13,390	16,746	-8.7	25.1
Other equipment .....	10,940	18,106	21,331	65.5	17.8
Land and other real estate .....	25,297	29,754	42,733	17.6	43.6
Building machinery and equipment .....	8,454	9,840	27,605	16.4	180.5
Leasehold improvements .....	1,652	754	3,437	-54.4	355.8
<b>Total</b> .....	<b>159,834</b>	<b>259,671</b>	<b>328,408</b>	<b>62.5</b>	<b>26.5</b>

for check equipment (\$7.7 million) in several Districts. In addition, Chicago has budgeted \$6.9 million for the purchase and installation of modems, dynamic bandwidth management controllers, and technical control equipment as part of the development of the new Fednet communications system.

Building outlays total \$139.5 million in 1991, about 42.5 percent of total capital outlays. Two major construction projects are budgeted in 1991: the new Dallas building (\$55.0 million) and the New York operations center in East Rutherford (\$50.5 million). The rest of the outlays are in additions or improvements to existing buildings. Also, the Boston, Cleveland, Richmond, Chicago, and San Francisco Banks have budgeted a total of \$5.0 million for tenant improvements.

Furniture and other equipment purchases are budgeted for \$38.1 million. Major outlays are planned in Boston, New York, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco for various refurbishment and relocation efforts. In addition, Cleveland, Richmond, Chicago, Minneapolis, and Dallas are installing uninterruptible-power-supply systems to support computer operations should a power outage occur, at a total cost of \$1.3 million. Materials-handling systems will be installed at the East Rutherford Operations Center (\$2.8 million), San Francisco (\$0.3 million), and Los Angeles (\$0.3 million). New York will install second-generation currency equipment (\$1.1 million).

Building machinery and equipment outlays are budgeted for \$27.6 million. The majority of these outlays are related to the Dallas building project (\$16.2 million). The remaining outlays are planned in several Districts to upgrade or replace existing machinery and equipment, such as security systems (\$1.5 million), elevators (\$1.8 million), and

emergency systems to support the building's power supply (\$2.6 million).

Land and other real estate purchases are budgeted for \$42.7 million, of which \$35 million is for land for the new Minneapolis building. Also, \$3.3 million is budgeted for a building expansion in Cleveland, \$1.8 million for the new building project in Dallas, and \$1.4 million for the East Rutherford Operations Center.

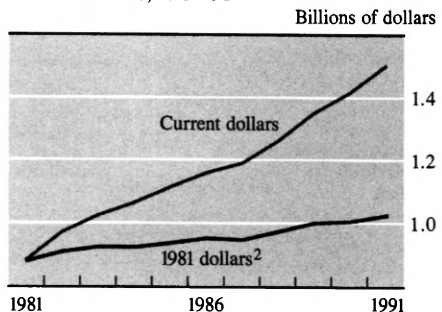
Outlays for leasehold improvements are \$3.4 million, of which \$2.4 million is for renovation of the supervision and regulation work spaces in New York.

### Trends in Expenses and Employment

For the ten years ending in 1991, expenses of the Reserve Banks will have increased an average of 5.4 percent per year (chart 3.1). From 1986 to 1991, the System's expense growth has been lower (5.3 percent per year). Increases in expenses were slightly higher (5.6 percent) in the early 1980s as Banks began implementing the requirements of the Monetary Control Act (MCA).

Over the past decade, the number of employees at the Reserve Banks has

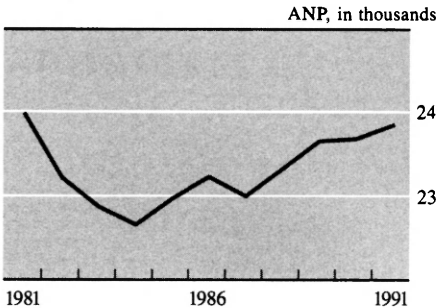
Chart 3.1  
Operating Expenses of the Federal Reserve Banks, 1981-91<sup>1</sup>



1. For 1990, estimate; for 1991, budget.
2. Calculated with the GNP price deflator.

Chart 3.2

Employment at the Federal Reserve Banks, 1981-91<sup>1</sup>



1. For 1990, estimate; for 1991, budget. See text note 1 for definition of ANP.

decreased from 23,989 in 1981 to 23,861 in 1991, a reduction of 128 ANP (chart 3.2). Since 1981, staff has decreased in overhead services (759 ANP) and services to financial institutions and the public (252 ANP) because of a System-wide effort to increase productivity in overhead services and because of staff reductions in priced services associated with the post-implementation phase of the MCA. These reductions are partially offset with staffing increases in supervision and regulation (571 ANP) and support services (212 ANP) associated with the additional requirements for resources related to the expanding responsibilities in these areas.

### Volume and Unit Costs

Volume for all measured operations is expected to increase 2.7 percent over that for 1990, while unit costs are expected to rise 2.2 percent (table 3.13). Over the five years from 1986 to 1991, the average annual growth rate will be 3.4 percent for volume and 0.4 percent for unit costs. The increase in unit costs expected for 1991 reflects a rise in unit costs in all areas except ACH. Unit costs for commercial check processing, the largest

Table 3.13

Changes from 1990 to 1991 in Volume and Unit Costs of Federal Reserve Bank Services

Percent

Service	Volume	Unit cost
Payments .....	3.5	.4
Commercial checks .....	1.3	1.3
Automated clearinghouse .....	15.0	-7.5
Funds transfers .....	4.8	3.2
Other checks .....	3.6	5.0
Cash .....	1.6	4.5
Fiscal .....	2.3	5.9
Securities and noncash .....	-2.6	10.9
All .....	2.7	2.2

operational area, are expected to increase 1.3 percent.

In 1991, the expected volume increase for the payments areas is 3.5 percent, an increase close to the five-year overall average. However, the lower growth anticipated for volume in cash and fiscal services (1.6 percent and 2.3 percent respectively) and the decrease anticipated for securities and noncash services (2.6 percent) result in an overall anticipated increase for 1991 of 2.7 percent, which is lower than the anticipated average.

### 1990 Budget Performance

In December 1989, the Board approved the 1990 Reserve Bank budgets at a total of \$1,419.0 million, an expected increase of \$77.6 million, or 5.8 percent, over estimated 1989 expenses. In January 1990, the approved budget was reduced \$4.1 million in the spirit of Gramm-Rudman-Hollings (GRH).

The Reserve Banks now estimate that 1990 expenses will be \$1,414.6 million, \$0.3 million under the GRH-adjusted budget. At this level of spending, the increase over the actual 1989 level will be 4.7 percent. For 1990, only the

Philadelphia Reserve Bank expects a budget overrun; it does so primarily because of unanticipated check write-offs and salary expenses resulting from forward and return item adjustments that were higher than anticipated. All but three Banks expect underruns of approximately 1 percent or less of the approved budgets. Cleveland expects an underrun of \$1.6 million, or 1.9 percent. This underrun is due mostly to lower-than-expected medical claims and to delays in the acquisition of major pieces of equipment. Chicago now projects an underrun of \$3.2 million, or 1.9 percent, due primarily to a 1990 real estate tax bill lower than originally budgeted. Minneapolis anticipates an underrun of \$1.4 million, or 2.0 percent, due to a 1989 refund on real estate taxes received in 1990. The refund was based on the decline in market value of the Minneapolis building and is partially offset by the acceleration to 1990 of some 1991 plans. ■

## Chapter 3

# Federal Reserve Banks

The 1992 operating budgets for the Federal Reserve Banks approved by the Board of Governors total \$1,596.4 million, an increase of \$94.8 million, or 6.3 percent, over estimated 1991 expenses (table 3.1). Not included in this amount are expenses for special projects related to Check Image Processing (\$4.3 million), Development of Currency Authentication Systems (\$9.3 million), and Automation Consolidation (\$6.5 million). Including the costs of these special projects, the Banks' 1992 budgets total \$1,616.5 million, an increase of \$108.1 million, or 7.2 percent, over estimated 1991 expenses.

Employment excluding the staff associated with the special projects is budgeted at 23,871 average number of personnel (ANP), an increase of 40 ANP, or 0.2 percent, over estimated 1991 employment.<sup>1</sup> Total budgeted employment including the special projects is 23,973, an increase of 140 ANP over estimated 1991 employment. The automation consolidation special project accounts for the 100 ANP increase related to special projects.

Expenses for personnel, which comprise salaries and benefits, account for \$1,037.6 million, or 65 percent of Reserve Bank expenses in 1992, an

increase of \$66.4 million, or 6.8 percent, over estimated 1991 personnel expenses (table 3.2). Nonpersonnel expenses are budgeted at \$558.8 million, an increase of \$28.5 million, or 5.4 percent, over 1991; these expenses are influenced primarily by automation and building projects.

The following two sections discuss the major initiatives and the budget objective for the Reserve Banks in 1992. Subsequent sections provide details for the four operational areas as well as objects of expense, capital outlays, and long-term trends. Appendix C gives details on capital outlays, special projects, and other special categories of expense. Appendix F gives further data by District and by operational area.

## Major Initiatives

The 1992 increase in total expenses includes \$36.6 million for Reserve Bank initiatives (table 3.3). Among the initiatives are:

- Projects to improve facilities at head offices and branches
- Increased efforts in supervision and regulation
- Enhanced check and cash operations
- Increased efforts in automation
- Enhanced programs for the U.S. Department of the Treasury

Improvements to facilities throughout the System will add \$18.7 million in 1992. Expenses associated with two major building projects account for nearly all the increase: New York's East

1. The term *average number of personnel* describes levels and changes in employment at the Reserve Banks. ANP measures the number of employees in terms of full-time positions for the time period. For instance, a full-time employee who starts work July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start January 1 count as 1 ANP. The ANP for any given year is the average number of full-time employees (measured in this way) in the months of that year.

24 *Annual Report: Budget Review, 1991-92*

Rutherford Operations Center (EROC) (\$9.2 million) and Dallas' new building (\$7.9 million). Ongoing building projects at the Cleveland, St. Louis, and Kansas City offices also contribute to the increase.

Initiatives in supervision and regulation will increase expenses by \$8.5 million and add 108 ANP; however, the net impact on the System will be 99 ANP because of staff decreases in a few Districts. A majority of the Banks attribute the need for additional staff to increased workloads, increased examination of foreign banks, and more problem institutions. Expenses related to travel and increased automation also will contribute to the increase in this area.

Nine Banks collectively have budgeted \$2.8 million to improve the efficiency of check systems. Most of these projects are continuing efforts and are contributing to a reduction in check-staff levels.

The Banks anticipate spending \$1.0 million in 1992 for enhanced currency processing. Increases are primarily in San Francisco for the full-year impact of additional processing equipment and staff to handle the projected growth in currency volume.

Projects related to office automation, contingency, and increased computer capacity will continue. These initiatives (excluding expenses for EROC and the new building in Dallas) are projected to

**Table 3.1**  
Expenses and Employment at the Federal Reserve Banks, 1991-92<sup>1</sup>

Category	1991 estimate	1992 budget	Change	
			Amount	Percent
<i>Expenses (millions of dollars)</i>				
Operations <sup>2</sup> .....	1,501.6	1,596.4	94.8	6.3
Special projects .....	6.8	20.1	13.3	...
Total .....	1,508.4	1,616.5	108.1	7.2
<i>Employment (average number of personnel)<sup>3</sup></i>				
Operations <sup>2</sup> .....	23,831	23,871	40	.2
Special projects .....	2	102	100	...
Total .....	23,833	23,973	140	.6

1. Excludes capital outlays.

2. Includes support and overhead (see appendix F, table F.3, note 1, for definitions).

3. See text note 1 for definition of average number of personnel.

**Table 3.2**  
Operating Expenses of the Federal Reserve Banks, by Object, 1990-92<sup>1</sup>

Thousands of dollars, except as noted

Object	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Personnel .....	897,614	971,248	1,037,609	8.2	6.8
Nonpersonnel .....	509,038	530,333	558,796	4.2	5.4
<b>Total .....</b>	<b>1,406,652</b>	<b>1,501,581</b>	<b>1,596,405</b>	<b>6.7</b>	<b>6.3</b>

1. Includes the costs of support and overhead (see appendix F, table F.3, note 1, for definitions).

add \$2.0 million in 1992. Boston, Cleveland, and San Francisco have budgeted large office automation projects to enhance end-user computing. Philadelphia and Richmond plan to acquire software development tools to improve computer programming productivity. Atlanta has budgeted for equipment to improve contingency and reliability.

Expenses for fiscal services are projected to increase \$2.4 million. Of the overall increase, \$2.1 million will be incurred as the System moves into the final phase of implementation of the Regional Delivery System (RDS), which involves centralized issuance of over-the-counter savings bonds. The 1992 increase is primarily for expenses associated with the addition of 67 ANP. (A total staff increase of 350 ANP is projected by the time the RDS project is fully implemented.) In addition, Minneapolis anticipates increased expenses and ANP for the Savings Bond Masterfile project, as volume is projected to double in 1992. RDS and Masterfile staff increases are partially offset by staff decreases in other fiscal activities. Expenses related to Treasury initiatives are fully reimbursable.

The increase in the Reserve Banks' matching contributions to the employee thrift plan will add an estimated \$4.6 million to Bank expenses in 1992.

Partially offsetting these increases are initiatives that will result in savings of \$3.4 million. Savings have been identified at Boston, Cleveland, Kansas City, and San Francisco. The savings are being achieved by increased productivity and Districtwide consolidation of certain operations. San Francisco's check initiatives and the consolidation of its fiscal operations are expected to save \$1.1 and 25 ANP. Productivity gains in Cleveland's check, fiscal, and currency operations will produce savings of \$0.8 million and 34 ANP.

## 1992 Budget Objective

In 1991, the Board approved a two-tiered approach to establishing the 1992 budget objective. First the increase in general operating expenses was targeted at 4.5 percent of projected 1991 expenses. Then expenses for budget objective factors were estimated. The Board anticipated that these expenses, which include the costs of several Systemwide efforts and District-specific building projects, would add between 1.5 and 2.4 percentage points. Staff believed the figure would be at the lower end of the range and recommended an overall budget objective of 6.5 percent. This guideline excluded the expenses of special projects. Table 3.4 shows a comparison of the 1992 budget objective and the 1992 budget.

The 1992 budget increase for general operating expenses of 4.2 percent is \$4.9 million, or 0.3 percent, less than the budget objective. The Banks are under the 4.5 percent general operating expense target primarily because of lower-than-

*Table 3.3*  
Operating Expenses Budgeted for  
Major Initiatives of the  
Federal Reserve Banks, 1992

Initiative	Millions of dollars	Percent of 1992 operating budget
Facility improvements .....	18.7	1.2
Supervision and regulation ....	8.5	.6
Enhanced check operations ...	2.8	.2
Currency initiatives .....	1.0	.1
Automation and contingency projects .....	2.0	.1
Fiscal initiatives .....	2.4	.2
Thrift plan .....	4.6	.3
Productivity and operational improvements .....	-3.4	-.2
<b>Total .....</b>	<b>36.6</b>	<b>2.5</b>
<b>MEMO</b>		
Increase in total operating expenses, 1991 estimate to 1992 budget .....	94.8	6.3

26 *Annual Report: Budget Review, 1991-92***Table 3.4**

Comparison of 1992 Budget Objective and Budget of the Reserve Banks over Estimated 1991 Expenses<sup>1</sup>

Percent change

Item	1992 budget objective	1992 budget
Operating expenses .....	4.5	4.2
Budget objective factors .....	1.9	2.1
Special projects .....	.8	.8
<b>Total .....</b>	<b>7.2</b>	<b>7.2</b>

1. See data on expenses in table 3.1.

anticipated spending for daylight overdraft processing and a smaller-than-expected increase in postage expenses.

The increase of \$32.2 million, or 2.1 percent, for budget objective factors is within the range approved by the Board. The budgeted expenses for most of the factors vary only slightly from the budget objective, but the 1992 increase for supervision and regulation is expected to be \$8.5 million, or \$6.3 million more than anticipated. The increase in the budget objective for supervision and regulation, \$2.2 million, was based on an anticipated increase in staff of 55. The 1992 budget reflects a staff increase of 99 ANP. The deteriorating condition of banks on the east coast and the plan to expand examination programs throughout the System will require additional examiners.

**Table 3.5**

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1990-92

Thousands of dollars, except as noted

Operational area	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Monetary and economic policy .....	98,973	107,530	113,021	8.6	5.1
Services to the U.S. Treasury and other government agencies .....	156,934	169,355	180,060	7.9	6.3
Services to financial institutions and the public .....	938,862	985,340	1,042,078	5.0	5.8
Supervision and regulation .....	211,884	239,356	261,246	13.0	9.1
<b>Total .....</b>	<b>1,406,652</b>	<b>1,501,581</b>	<b>1,596,405</b>	<b>6.7</b>	<b>6.3</b>

Excluded from the 1992 spending target was the projected increase of \$5.2 million, or 0.3 percent, associated with the Check Image Processing and Currency Authentication Systems special projects. The 1992 budget for these projects represents an increase of \$6.7 million over the 1991 estimate, \$1.8 million for the Check Image project and \$4.8 million for the Development of Currency Authentication Systems. In addition, a new special project has been established to capture the costs associated with Automation Consolidation. The 1992 budget for this special project is \$6.5 million.

### Operational Areas

Tables 3.5 and 3.6 summarize Reserve Bank expenses and employment in each of the four operational areas. Tables 3.7 through 3.10 show expense details for each area.

### Monetary and Economic Policy

The 1992 budget increase of \$5.5 million, or 5.1 percent above 1991 estimated expenses, reflects a staff increase of 3 ANP, salary administration actions, increased equipment and data-processing costs associated with automation initia-

tives, costs associated with new building projects in two Districts, and increased costs of the research libraries in some Districts. Staffing increases are due primarily to the full-year effect of economists hired during 1991.

At the District level, New York has budgeted for automation initiatives that include replacement of an information display system (IDS) in the Open Market and Foreign Exchange areas and installation of an office information system in the statistics area. New York's budget also reflects higher costs for data-processing support due to increased volume on the Securities Trading and Clearing System (STACS).

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

The 1992 budget for this operational area is projected to be \$180.1 million, or 6.3 percent greater than estimated 1991 expenses. Staffing levels are expected to decline by 8 ANP. The continued conversion of over-the-counter savings bonds to the Savings Bond Regional Delivery System will add 71 ANP to the consolidated operations-savings bonds area, but staff in other savings bonds activities will decrease by 55 ANP. Savings bond volume is expected to increase by 9.0 percent, while unit costs are budgeted to decrease by 0.4 percent.

Table 3.6

### Employment at the Federal Reserve Banks, by Activity, 1990-92

Average number of personnel, except as noted<sup>1</sup>

Activity	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
<i>Operational areas</i>					
Monetary and economic policy.....	772	791	794	2.4	.4
Services to the U.S. Treasury and other government agencies.....	1,816	1,909	1,902	5.1	-4
Services to financial institutions and the public.....	9,214	9,121	8,974	-1.0	-1.6
Supervision and regulation.....	2,217	2,378	2,477	7.3	4.2
<i>Support and overhead<sup>2</sup></i>					
Support.....	4,533	4,658	4,730	2.8	1.5
Overhead.....	4,940	4,974	4,995	.7	.4
<b>Total.....</b>	<b>23,492</b>	<b>23,831</b>	<b>23,872</b>	<b>1.4</b>	<b>.2</b>

1. See text note 1 for definition of average number of personnel.

2. See appendix F, table F.3, note 1, for definitions.

Table 3.7

### Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1990-92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Economic policy determination.....	80,157	86,186	90,543	7.5	5.1
Open market trading.....	18,816	21,344	22,477	13.4	5.3
<b>Total.....</b>	<b>98,973</b>	<b>107,530</b>	<b>113,021</b>	<b>8.6</b>	<b>5.1</b>

28 *Annual Report: Budget Review, 1991-92***Services to Financial Institutions and the Public**

The 1992 budget for this operational area, which includes both priced and nonpriced operations, is expected to increase by \$56.7 million, or 5.8 percent above estimated 1991 expenses. Staff is to be reduced by 147 ANP, primarily in the commercial checks (-118 ANP), definitive securities safekeeping and noncash collection (-13 ANP), and automated clearinghouse (-10 ANP)

operations. These decreases are partially offset by staff increases in currency and coin operations (19 ANP).

Commercial check processing is by far the largest service (\$504.9 million), accounting for almost half the budgeted expenses for this operational area and requiring 5,480 ANP; the anticipated increase in expenses is \$21.4 million, or 4.4 percent above estimated 1991 expenses. Staffing levels for 1992 include a reduction of 118 ANP resulting from improved operations, continued

*Table 3.8***Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1990-92**

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Savings bonds.....	40,069	37,143	35,576	-7.3	-4.2
Consolidated operations, savings bonds.....	13,566	23,724	28,593	74.9	20.5
Other Treasury issues.....	15,872	15,316	16,339	-3.5	6.7
Consolidated operations, other Treasury issues.....	1,495	1,275	1,396	-14.7	9.5
Central Treasury and agency services.....	21,950	22,338	23,636	1.8	5.8
Government accounts.....	23,926	24,778	26,467	3.6	6.8
Food coupons.....	15,546	18,499	19,702	19.0	6.5
Other.....	24,508	26,282	28,351	7.2	7.9
<b>Total.....</b>	<b>156,933</b>	<b>169,355</b>	<b>180,060</b>	<b>7.9</b>	<b>6.3</b>

*Table 3.9***Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1990-92**

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Currency and coin.....	156,240	168,215	183,279	7.7	9.0
Special cash.....	13,652	14,208	14,695	4.1	3.4
Commercial checks.....	473,099	483,528	504,892	2.2	4.4
Other checks.....	24,650	27,965	29,816	13.5	6.6
Funds transfer.....	63,731	71,562	75,742	12.3	5.8
Automated clearinghouse.....	78,880	82,598	89,527	4.7	8.4
Book-entry securities transfers.....	31,027	33,318	35,274	7.4	5.9
Definitive securities safekeeping and noncash collection.....	14,710	14,542	14,288	-1.1	-1.7
Loans to members and others.....	15,073	15,987	16,826	6.1	5.2
Public programs.....	43,762	48,710	51,977	11.3	6.7
Other.....	24,038	24,708	25,764	2.8	4.3
<b>Total.....</b>	<b>938,862</b>	<b>985,340</b>	<b>1,042,079</b>	<b>5.0</b>	<b>5.8</b>

automation in the area of check adjustments, reductions in adjustment backlogs, conversion to optical disk storage systems in several Districts, and continued improvements in processing return items. Commercial check volume is budgeted to decrease 0.2 percent, while unit costs are budgeted to increase 4.2 percent.

Expenses for the currency service are expected to increase \$13.3 million, or 9.3 percent, over 1991. Staff will increase by 19 ANP. Currency volume is projected to grow by 6.1 percent in 1992. The major initiatives affecting this service are managing increased volumes and the Second Generation Currency Processing project.

The automated clearinghouse (ACH) service is budgeted to increase by \$6.9 million, or 8.4 percent. Growth in expenses will shift from government to commercial ACH services, as commercial ACH volumes continue to grow at faster rates. Total ACH volume is projected to increase 15.9 percent in 1992, resulting in a 6.4 percent decrease in unit cost. Major initiatives affecting this service are conversion to All-Electronic ACH service and the Future ACH System project.

Expenses for the funds transfer service are expected to increase by \$4.2 million, or 5.8 percent. Staff will

decrease by 7 ANP. The increase in costs is primarily the result of increased data-processing, data-communications, and data-systems support costs associated with volume growth. Some accounting costs allocated to this service will decrease as a result of funds summarization initiatives.

### Supervision and Regulation

The increase of \$21.9 million, or 9.1 percent, for this operational area is due mainly to the addition of 99 ANP and increases in compensation, equipment (primarily laptop computers), travel, training, and automation. Staff increases are necessitated by increased demands on the Federal Reserve's examination staffs, including more examinations of broader scope, increased emphasis on Bank Secrecy Act issues, the need to monitor compliance with and pursue enhancements to international risk-based capital standards, the increasing number of organizations that are likely to require special attention in the form of extended examinations in several Districts, and continued strengthening of consumer affairs operations. Expenses are also affected by initiatives in the areas of payment system risk and daylight overdraft pricing.

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1990-92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Supervision of District financial institutions .....	131,328	151,430	168,666	15.3	11.4
Administration of laws and regulations related to banking .....	69,257	76,929	80,559	11.1	4.7
Studies of banking and financial market structures .....	11,298	10,997	12,021	-2.7	9.3
<b>Total</b> .....	<b>211,884</b>	<b>239,356</b>	<b>261,246</b>	<b>13.0</b>	<b>9.1</b>

30 *Annual Report: Budget Review, 1991-92***Objects of Expense**

Personnel expenses comprise officer and employee salaries, other compensation to personnel, and retirement and other benefits. Total personnel costs are expected to increase by 6.8 percent in 1992, accounting for 65.0 percent of Reserve Bank expenses (table 3.11).

Salaries and other compensation for personnel account for 52.0 percent of 1992 budgeted expenses, and anticipated growth is \$45.1 million, or 5.7 percent. The increase for salaries, \$46.6 million, or 6.0 percent, will be partially offset by a decline of \$1.5 million in other personnel expenses. Merit pay increases of \$37.1 million, or 4.8 percent, are the

primary reason for salary expense growth. Also contributing to additional salary expenses are promotions, reclassifications, structure adjustments, and staffing level increases. These increases are partially offset by short-term position vacancies (lag) and reduced overtime expenses.

Retirement and other benefits expenses, which account for 13.0 percent of the 1992 Reserve Bank budgets, are anticipated to increase by \$21.3 million, or 11.5 percent, over 1991. The increase is the result of continued escalation of hospital and medical costs, a rise in social security, workers compensation, and unemployment compensation payments, and the higher employer con-

*Table 3.11***Operating Expenses of the Federal Reserve Banks, by Object, 1990-92**

Thousands of dollars, except as noted

Object	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
<b>PERSONNEL</b>					
Officers' salaries .....	73,979	80,598	85,005	8.9	5.5
Employees' salaries .....	646,980	693,656	735,867	7.2	6.1
Other personnel <sup>1</sup> .....	12,872	11,329	9,784	-12.0	-13.6
Retirement and other benefits .....	163,784	185,666	206,954	13.4	11.5
<b>Total personnel</b> .....	<b>897,615</b>	<b>971,249</b>	<b>1,037,610</b>	<b>8.2</b>	<b>6.8</b>
<b>NONPERSONNEL</b>					
Forms and supplies .....	53,418	54,942	55,997	2.9	1.9
Equipment .....	162,773	167,862	179,611	3.1	7.0
Software .....	32,221	32,931	34,433	2.2	4.6
Shipping .....	83,461	89,661	91,295	7.4	1.8
Travel .....	28,883	32,383	33,970	12.1	4.9
<b>Buildings</b>					
Insurance .....	802	912	1,132	13.7	24.1
Real estate taxes .....	22,430	27,104	30,811	20.8	13.7
Property depreciation .....	33,545	35,666	40,228	6.3	12.8
Utilities .....	25,486	26,776	29,465	5.1	10.0
Rent .....	22,029	23,364	24,771	6.1	6.0
Other .....	19,194	19,178	20,259	-1	5.6
<b>Total buildings</b> .....	<b>123,486</b>	<b>133,000</b>	<b>146,666</b>	<b>7.7</b>	<b>10.3</b>
Recoveries .....	-35,204	-35,690	-38,033	1.4	6.6
All other <sup>2</sup> .....	60,000	55,244	54,860	-7.9	-7
<b>Total nonpersonnel</b> .....	<b>509,037</b>	<b>530,333</b>	<b>558,796</b>	<b>4.2</b>	<b>5.4</b>
<b>Total</b> .....	<b>1,406,652</b>	<b>1,501,582</b>	<b>1,596,406</b>	<b>6.7</b>	<b>6.3</b>

1. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.

2. Communications, fees, contra-expenses, shared costs distributed, shared costs received, support cost distributed, support cost received, and other.

tribution to the employee thrift plan in 1992.

Nonpersonnel expenses account for 35.0 percent of the 1992 Reserve Bank budgets, reflecting a projected increase of 5.4 percent over 1991.

Equipment expenses are expected to increase by 7.0 percent, accounting for 11.3 percent of total expenses in 1992. An equipment depreciation increase of \$8.4 million, or 9.5 percent, is attributable to continuing upgrades of data-processing equipment in some Districts, the full-year impact of equipment purchased in 1991, and the New York EROC and Dallas facilities programs.

Shipping expenses are projected to increase by 1.8 percent, accounting for 5.7 percent of Reserve Bank expenses in 1992. This small increase is due primarily to an increase in Interdistrict Transportation System costs offset by savings in postage costs as a result of RDS implementation.

Building expenses, which account for 9.2 percent of total 1992 expenses, are expected to increase by 10.3 percent over 1991 because of higher real estate taxes and the full-year effect of recently completed capital projects in a number of Districts. The New York EROC and

Dallas building projects contribute heavily to the large increases.

Recoveries are expected to increase by \$2.3 million, or 6.6 percent, in 1992, primarily because of increased income from tenants and expanded electronic ACH services.

Foreign travel expenses total \$2.6 million, up 8.5 percent over 1991 but accounting for only 0.2 percent of total expenses. Examiner travel, budgeted at \$1.6 million, is up 11.2 percent. Foreign travel expenses for Bank Presidents and First Vice Presidents, at \$186,000, are up 19.0 percent over estimated 1991 expenses. Of this amount, \$112,000 is budgeted for New York, primarily for that District's participation in the work of the Bank for International Settlements.

### Capital Outlays

Capital outlays are budgeted at \$259.1 million, a decrease of \$24.0 million, or 8.5 percent, from estimated 1991 expenses (table 3.12). The decrease is a result of the near completion of two major building projects, the Dallas building and New York's East Rutherford Operations Center. The Reserve

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1990-92

Thousands of dollars, except as noted

Class of outlay	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Data-processing and data-communications equipment .....	94,715	72,221	112,452	-23.7	55.7
Buildings .....	76,313	138,753	51,257	81.8	-63.1
Furniture, furnishings, and fixtures .....	12,279	22,874	28,512	86.3	24.6
Other equipment .....	14,613	20,550	34,311	40.6	67.0
Land and other real estate .....	35,055	3,294	8,632	-90.6	162.0
Building machinery and equipment .....	8,906	23,571	18,665	164.7	-20.8
Leasehold improvements .....	1,012	1,813	2,830	79.1	56.1
Software .....	...	...	2,454	...	...
<b>Total .....</b>	<b>242,893</b>	<b>283,076</b>	<b>259,112</b>	<b>16.5</b>	<b>-8.5</b>

32 *Annual Report: Budget Review, 1991-92*

Banks' capital budgets continue to be dominated by outlays for data-processing and data-communications equipment.

Outlays for data-processing and data-communications equipment for 1992 amount to \$112.5 million, approximately 43.4 percent of total capital outlays. The largest portion of these outlays is for central processing units and check equipment (\$25.5 million), primarily for data- and check-processing systems at EROC (\$9.2 million) and Dallas (\$4.5 million). Purchases and upgrades of storage devices are planned by all Districts. In addition, Chicago has budgeted \$6.3 million for equipment related to a system communication center.

Purchases of furniture and other equipment are budgeted at \$62.8 million, about 24.2 percent of total capital outlays. New York's planned purchase of equipment for installation at EROC accounts for approximately one-fourth of these outlays (\$15.4 million). The Districts plan to spend approximately \$16.7 million on cash-related equipment, including currency processing machines at EROC and Baltimore (\$8.7 million), cash materials handling systems at several offices (\$3.9 million), and currency briquetters at EROC, Atlanta, and Chicago (\$1.0 million).

Building outlays account for \$51.3 million in the 1992 budget, about 19.8 percent of total capital outlays. The amount includes renovation and remodeling projects in several Districts (\$15.3 million), consulting fees associated with the planned new facility at Minneapolis (\$8.3 million), and construction of New York's EROC (\$6.3 million).

Land and other real estate purchases are budgeted at \$8.6 million. The largest item is land for the new Minneapolis building (\$4.2 million); another \$2.0 million is budgeted for a new parking lot at San Francisco's Portland office.

Building machinery and equipment outlays are budgeted at \$18.7 million. A large portion of these outlays is related to the Dallas building project (\$6.3 million); the remainder will enable several Districts to upgrade or replace existing machinery and equipment.

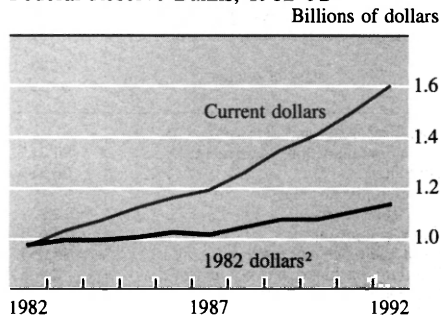
Outlays for leasehold improvements are budgeted at \$2.8 million.

### Trends in Expenses and Employment

For the ten years ending in 1992, expenses of the Reserve Banks will have increased an average of 5.1 percent per year (chart 3.1). From 1987 through 1992, the annual growth in Bank expenses has been 5.9 percent. Increases in expenses were slightly higher after 1987 because of implementation of EFA (Expedited Funds Availability Act) and increased bank supervision.

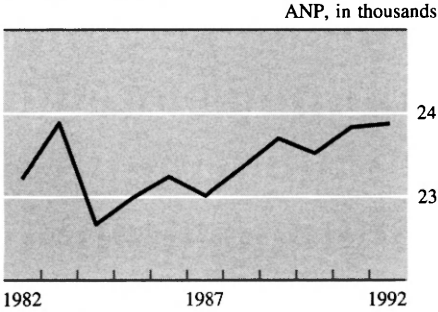
The number of employees at the Reserve Banks has increased from 23,230 in 1982 to 23,871 in 1992, an increase of 641 ANP (chart 3.2). Since 1982, staffing has increased in supervision and regulation (681 ANP) and services to financial institutions and the public (408 ANP) because additional

Chart 3.1  
Operating Expenses of the  
Federal Reserve Banks, 1982-92<sup>1</sup>



1. For 1991, estimate; for 1992, budget.
2. Calculated with the GNP price deflator.

**Chart 3.2**  
Employment at the Federal Reserve  
Banks, 1982-92<sup>1</sup>



1. For 1991, estimate; for 1992, budget. See text note 1 for definition of ANP.

resources were needed to meet expanded responsibilities in the two areas. Partially offsetting these increases were decreased staff in overhead services (681 ANP) resulting from Systemwide efforts to control costs.

### Volume and Unit Costs

Volume for all measured operations is expected to increase by 2.8 percent over 1991, and unit cost is expected to rise by 2.9 percent (table 3.13). Over the years 1987 through 1992 budget, volume is expected to increase at an average annual rate of 3.1 percent and unit cost at an average annual rate of 1.8 percent. The increase in unit cost expected for 1992 reflects a rise in unit cost in all areas except ACH services and savings bonds. In the area of commercial checks, the largest component of the index, unit cost is expected to increase by 4.2 percent and volume to decrease by 0.2 percent; the decrease in volume is due primarily to bank mergers.

### 1991 Budget Performance

The 1991 Reserve Bank budgets were approved in December 1990 at a total of

**Table 3.13**  
Changes from 1991 to 1992 in  
Volume and Unit Costs of  
Federal Reserve Bank Services

Service	Percent	
	Volume	Unit cost
Payments .....	2.4	2.4
Commercial checks .....	-2	4.2
Automated clearinghouse .....	15.9	-6.4
Funds transfers .....	4.5	1.3
Other checks .....	-1.1	7.0
Cash .....	4.8	3.6
Fiscal .....	3.8	3.5
Securities and noncash .....	-1.5	5.1
<b>All services .....</b>	<b>2.8</b>	<b>2.9</b>

\$1,501.0 million, an expected increase of \$86.4 million, or 6.1 percent, over estimated 1990 expenses. The Reserve Banks now estimate that 1991 expenses will have been \$1,501.6 million, or \$0.6 million over the approved budget.

Five Reserve Banks expect to be within 0.1 percent of their approved 1991 budgets. As a result of a building accident that caused water damage to its computer, Minneapolis anticipates a budget overrun of \$2.9 million, or 4.1 percent. Richmond anticipates a budget overrun of \$492,000, or 0.4 percent, primarily because additional staff are needed in the area of supervision and regulation. Seven Districts expect to be under budget by less than 1 percent. ■

## Chapter 3

# Federal Reserve Banks

The 1993 operating budgets for the Federal Reserve Banks approved by the Board of Governors total \$1,722.5 million, an increase of \$126.2 million, or 7.9 percent, over estimated 1992 expenses (table 3.1). Not included in the budgets are the costs of three special projects—Check Image Processing (\$3.1 million), Development of Currency Authentication Systems (\$4.2 million), and Automation Consolidation (\$73.0 million).<sup>1</sup> Including the costs of these special projects, the Reserve Banks' 1993 budgets total \$1,802.8 million, an increase of \$173.9 million, or 10.7 percent, over estimated 1992 expenses.

Employment excluding the staff associated with the special projects is budgeted at 24,286 average number of personnel (ANP), an increase of 272 ANP, or 1.1 percent, over estimated 1992 employment.<sup>2</sup> Including the special projects staff, total budgeted employment is 24,586, an increase

of 466 ANP over estimated 1992 employment.<sup>3</sup>

Expenses for personnel (salaries and benefits) account for \$1,150.0 million, or 66.8 percent of Reserve Bank operating expenses budgeted for 1993, an increase of \$101.2 million, or 9.6 percent, over estimated 1992 personnel expenses (table 3.2). Nonpersonnel expenses (primarily for building and automation projects) are budgeted at \$572.5 million, an increase of \$25.0 million, or 4.6 percent.

The following two sections discuss major initiatives and the budget objective for the Reserve Banks in 1993. Subsequent sections provide details for the four operational areas as well as objects of expense, capital outlays, and long-term trends. Appendix A gives more information on capital outlays, special projects, and other special categories of expense. Appendix D gives additional data by District and by operational area.

## Major Initiatives

The 1993 Reserve Bank budgets provide \$66.9 million for Bank initiatives (table 3.3), including the following:

- Increased expenses for postemployment medical and life insurance benefits (FASB 106)

1. The budget for the Automation Consolidation special project includes \$55.2 million for excess capacity at FRAS (Federal Reserve Automation Services, the name given the consolidated computer operations located at New York, Richmond, and Dallas). The remainder of the Automation Consolidation budget (\$17.9 million) is being contributed by the Reserve Banks. For more information on FRAS, see chapter 4.

2. The term *average number of personnel* describes levels and changes in employment at the Reserve Banks. ANP measures the number of employees in terms of full-time positions for the time period. For instance, a full-time employee who starts work July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start January 1 count as 1 ANP.

3. For presentation purposes, FRAS staff is included with the Automation Consolidation special project. Special project staff comprises 2 ANP for the Check Image Processing special project and 298 ANP for the Automation Consolidation special project.

24 *Annual Report: Budget Review, 1992-93*

- Expanded efforts in supervision and regulation
- Enhanced automation capabilities
- Increased expenses for facility projects at head office and Branch buildings
- Enhanced check, cash, and fiscal operations.

The projected increase for postemployment benefits, \$35.7 million, is due to implementation of Financial Accounting Standard 106 (FASB 106), which requires that organizations accrue expenses for funding the postretirement medical and life insurance benefits of their current employees and retirees.

Expanded efforts in supervision and regulation are projected to increase expenses \$21.3 million and to add 300 ANP. Approximately half the

amount, \$10.8 million and 135 ANP, will go for expansion of New York's supervision and regulation activities, primarily a result of mandates contained in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

Automation initiatives are budgeted at \$6.1 million. The largest portion of this amount is related to expenses for the new Fednet communications system.<sup>4</sup> In addition, Boston, Cleveland, and San Francisco will be adding office automation capabilities. Partially offsetting expenditures for automation initiatives are savings associated with the impact of automation consolidation at the Reserve Banks.

4. Fednet is a registered trademark of the Federal Reserve System.

*Table 3.1*

Expenses and Employment at the Federal Reserve Banks, 1992 and 1993<sup>1</sup>

Category	1992 estimate	1993 budget	Change	
			Amount	Percentage
<i>Expenses (millions of dollars)</i>				
Operations <sup>2</sup> .....	1,596.3	1,722.5	126.2	7.9
Special projects .....	32.6	80.3	47.7	...
Total .....	1,628.9	1,802.8	173.9	10.7
<i>Employment (average number of personnel)<sup>3</sup></i>				
Operations <sup>2</sup> .....	24,014	24,286	272	1.1
Special projects .....	106	300	194	...
Total .....	24,014	24,586	466	1.9

1. Excludes capital outlays.

2. Includes support and overhead (see appendix D, table D.3, note 1, for definitions).

3. See text note 2 for definition of average number of personnel.

*Table 3.2*

Operating Expenses of the Federal Reserve Banks, by Object, 1991-93<sup>1</sup>

Millions of dollars, except as noted

Object	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Personnel .....	967.7	1,048.8	1,150.0	8.4	9.6
Nonpersonnel .....	526.2	547.5	572.5	4.0	4.6
<b>Total</b> .....	<b>1,493.9</b>	<b>1,596.3</b>	<b>1,722.5</b>	<b>6.9</b>	<b>7.9</b>

1. Includes the costs of support and overhead (see appendix D, table D.3, note 1, for definitions).

Facility projects account for \$5.8 million in the 1993 budget. The year-over-year impact of the East Rutherford Operations Center (EROC), combined with relocation of operations of the Cranford check processing center to EROC, will increase New York's expenses by \$2.2 million. New York has been able to keep increases associated with EROC to a minimum by implementing operating efficiencies, which have allowed for a reduction of 45 ANP in 1993. As an interim solution to its building space limitations, Atlanta will lease additional space in 1993, at a cost of \$1.7 million. Dallas has budgeted an additional \$1.1 million for operating costs associated with its new building, and Minneapolis has included \$0.4 million, primarily for taxes on the land for its new building.

Initiatives in the currency area are adding \$4.0 million to the 1993 budget. Five Districts have budgeted a total of \$2.7 million for new cash-processing machines; New York expects to receive

ten machines during 1993, with associated maintenance and depreciation costs of approximately \$2.0 million. In addition, Philadelphia, Cleveland, and San Francisco are projecting increased costs related to several cash automation projects.

Fiscal initiatives have added \$3.1 million to the Reserve Banks' total 1993 budget. A large share of this amount is attributable to a Treasury Department decision in 1992 to consolidate savings bond operations in the Federal Reserve System. Five Districts—New York, Cleveland, Richmond, Minneapolis, and Kansas City—were designated processing sites. The consolidation of operations, including original issue, servicing, and direct redemption, is targeted for completion by 1996. The five host sites have budgeted approximately \$2.6 million to begin preparation for consolidated processing.

Partially offsetting these increases are initiatives that will result in savings of \$10.8 million. Approximately half the savings will come from elimination of cash transportation in Philadelphia (\$1.5 million) and San Francisco (\$4.2 million). Several Banks anticipate additional total savings of \$3.1 million from increased productivity and District-wide consolidation of operations, primarily in the check and automated clearinghouse (ACH) areas.

**Table 3.3**  
Expenditures for Major Initiatives  
of the Federal Reserve Banks, 1993

Initiative	Millions of dollars	Percentage of 1993 operating budget
FASB 106 <sup>1</sup> .....	35.7	2.2
Supervision and regulation ...	21.3	1.3
Automation projects .....	6.1	.4
Facility improvements .....	5.8	.4
Currency initiatives .....	4.0	.3
Fiscal initiatives .....	3.1	.2
Enhanced check operations ...	1.7	.1
Productivity and operational improvements .....	-8.9	-6
Early retirement programs .....	-1.9	-1
<b>Total</b> .....	<b>66.9</b>	<b>4.2</b>
<b>MEMO</b>		
Increase in total operating expenses, 1992 estimate to 1993 budget .....	126.2	7.9

1. Financial Accounting Standard 106.

### 1993 Budget Objective

In 1992, the Board of Governors approved a 1993 Reserve Bank budget objective that provided for a 4.4 percent increase in ongoing general operating expenses over total 1992 operating expenses. The Board also anticipated that expenses for budget objective factors, including several Systemwide efforts and District-specific building and equipment projects, would add 4.0 per-

26 *Annual Report: Budget Review, 1992-93***Table 3.4**1993 Budget Objective and Budget of the Federal Reserve Banks<sup>1</sup>

Percentage change from 1992 expenses

Item	Budget objective	Budget
General operating expenses .....	4.4	3.5
Budget objective factors .....	4.0	4.4
<b>MEMO</b>		
Special projects .....	2.4	2.8
<b>Total</b> .....	<b>10.8</b>	<b>10.7</b>

1. See data on expenses in table 3.1.

centage points to the 1993 budget. Table 3.4 compares the 1993 budget objective with the 1993 budget, both expressed in terms of the percentage increase over 1992 expenses.

The 1993 increase for general operating expenses is 0.9 percentage point less than the budget objective. The increase is under the 4.4 percent general operating expense target primarily because of savings in several Districts that were not included in the objective. Elimination of the cash transportation service by Philadelphia and San Francisco (\$5.7 million), operational improvements, primarily in ACH, by several Districts (\$1.3 million), and smaller-than-anticipated increases in shipping rates (\$2.8 million) account for a significant portion of the underrun. Early retirement programs in Cleveland and Minneapolis

account for an additional \$1.9 million in savings.

The increase of \$69.8 million for budget objective factors is \$5.0 million, or 0.4 percentage point, above the target established by the Board. Budgeted expenses for most of the factors vary only slightly from the budget objective, but the increase for supervision and regulation is \$8.2 million higher than anticipated. This budget factor took into consideration only the salaries and benefits associated with expanded responsibilities mandated by the FDICIA, whereas the budget includes not only salaries and benefits, but also related expenses such as travel, training, and equipment. In addition, salary expenses are higher than had been anticipated in the budget objective, as Districts have been able to hire more experienced supervision and regulation staff.

Excluded from the 1993 budget objective was the projected increase of \$50.3 million for transition costs for the Automation Consolidation special project. Also excluded were projected lower expenditures for the Check Image Processing and Currency Authentication Systems special projects (\$1.2 million and \$1.4 million decrease respectively). The net effect of these special projects is an increase of \$47.7 million over estimated 1992 expenses.

**Table 3.5**

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1991-93

Thousands of dollars, except as noted

Operational area	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Monetary and economic policy .....	106,699	110,531	119,619	3.6	8.2
Services to the U.S. Treasury and other government agencies .....	169,483	181,359	196,747	7.0	8.5
Services to financial institutions and the public .....	980,379	1,027,642	1,084,884	4.8	5.6
Supervision and regulation .....	237,369	276,745	321,249	16.6	16.1
<b>Total</b> .....	<b>1,493,930</b>	<b>1,596,277</b>	<b>1,722,499</b>	<b>6.9</b>	<b>7.9</b>

## Operational Areas

Tables 3.5 and 3.6 summarize Reserve Bank expenses and employment in each of the four operational areas. Tables 3.7 through 3.10 give details for each area.

### Monetary and Economic Policy

The 1993 budget for this operational area is \$9.1 million, or 8.2 percent, larger than estimated 1992 expenses. The increase reflects a staff increase of 9 ANP (1.2 percent), merit pay increases, greater expenses associated with FASB 106, and increased costs for equipment and support associated with automation initiatives. The staff increase, occurring primarily at the Rich-

mond, St. Louis, Kansas City, and Minneapolis head offices, reflects the full-year effect of staff hired in 1992 to assist with automation initiatives, report monitoring, and data collection; the full-year effect of economists hired during 1992 to fill vacancies; and the planned hiring of two additional economists in 1993.

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

The 1993 budget for services to government agencies is \$15.4 million, or 8.5 percent, higher than estimated 1992 expenses. Staffing levels are expected to decline by approximately 15 ANP. The

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1991-93

Average number of personnel, except as noted<sup>1</sup>

Activity	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
<i>Operational areas</i>					
Monetary and economic policy .....	784	778	787	-8	1.2
Services to the U.S. Treasury and other government agencies .....	1,870	1,838	1,822	-1.7	-9
Services to financial institutions and the public .....	9,044	8,966	8,723	-9	-2.7
Supervision and regulation .....	2,343	2,629	2,929	12.2	11.4
<i>Support and overhead<sup>2</sup></i>					
Support .....	4,629	4,780	4,781	3.3	.0
Overhead .....	4,924	5,025	5,244	2.1	4.4
<b>Total .....</b>	<b>23,594</b>	<b>24,014</b>	<b>24,286</b>	<b>1.8</b>	<b>1.1</b>

1. See text note 2 for definition of average number of personnel.

2. See appendix D, table D.3, note 1, for definitions.

Table 3.7

Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1991-93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Economic policy determination .....	86,775	89,572	97,769	3.2	9.2
Open market trading .....	19,923	20,960	21,851	5.2	4.3
<b>Total .....</b>	<b>106,699</b>	<b>110,531</b>	<b>119,619</b>	<b>3.6</b>	<b>8.2</b>

budget increase is due mainly to costs associated with the project to consolidate savings bond operations and to higher salaries and benefits costs. In addition, the full-year effect of Regional Delivery System implementation will add 25 ANP. However, this increase will be more than offset by reductions in staff for other savings bonds services (15 ANP) as well as in the government accounts (10 ANP), centrally provided

Treasury and agency services (8 ANP), and other Treasury issues (7 ANP) services.

### Services to Financial Institutions and the Public

Expenses for this operational area, which encompasses both priced and nonpriced services, are budgeted to increase \$57.2 million, or 5.6 percent, in 1993.

*Table 3.8*

### Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1991-93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Savings bonds .....	36,240	33,912	36,648	-6.4	8.1
Consolidated operations-savings bonds .....	23,323	31,713	35,325	36.0	11.4
Other Treasury issues .....	15,457	16,970	17,585	9.8	3.6
Consolidated operations-other Treasury issues .....	1,224	1,241	1,323	1.4	6.6
Centrally provided Treasury and agency services .....	22,425	23,137	24,555	3.2	6.1
Government accounts .....	26,518	28,217	30,869	6.4	9.4
Food coupons .....	18,875	19,533	21,150	3.5	8.3
Other .....	25,422	26,637	29,293	4.8	10.0
<b>Total .....</b>	<b>169,483</b>	<b>181,359</b>	<b>196,747</b>	<b>7.0</b>	<b>8.5</b>

*Table 3.9*

### Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1991-93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Currency .....	141,890	158,413	172,226	11.6	8.7
Coin .....	24,474	24,459	26,105	-1	6.7
Special cash .....	14,379	12,433	6,497	-13.5	-47.7
Commercial check .....	482,742	503,786	531,015	4.4	5.4
Other check .....	28,084	30,250	33,687	7.7	11.4
Funds transfer .....	69,639	66,866	72,330	-4.0	8.2
Automated clearinghouse .....	80,712	88,591	93,446	9.8	5.5
Book-entry securities transfers .....	34,063	34,455	35,749	1.1	3.8
Definitive securities safekeeping and noncash collection .....	14,455	13,520	11,931	-6.5	-11.7
Loans to members and others .....	16,099	16,580	18,248	3.0	10.1
Public programs .....	47,915	51,934	56,757	8.4	9.3
Other .....	25,926	26,358	26,895	1.7	2.0
<b>Total .....</b>	<b>980,379</b>	<b>1,027,642</b>	<b>1,084,884</b>	<b>4.8</b>	<b>5.6</b>

Staffing levels will decrease by 243 ANP, mainly in commercial check (118 ANP), automated clearinghouse (55 ANP), and noncash collection (38 ANP) operations.

The commercial check service accounts for nearly half the expenses budgeted for this operational area and employs 5,346 ANP. The anticipated increase in expenses—\$27.2 million, or 5.4 percent over the estimated 1992 level—is due mostly to higher salary and benefits expenses resulting from merit pay increases, FASB 106, and higher costs for equipment and software intended to improve operations. Staffing levels for this service are expected to decline by 118 ANP, or 2.2 percent, owing to continued automation and downsizing of the check adjustments function, reductions in adjustment backlogs, and continued improvements in processing return items, including increased intermingling of forward collection and return items. The volume of commercial checks is expected to increase 0.5 percent, and unit cost is budgeted to increase 4.4 percent.

Expenses for the currency service are expected to increase \$13.8 million, or 8.7 percent, mainly because of the introduction of the ISS 3000 cash-processing machines, implementation of counterfeit detectors and materials-

handling systems, and efforts to manage larger volumes. Higher salary and benefits expenses due to FASB 106 and merit pay increases will also contribute to the increase over estimated 1992 expenses. Staffing levels will increase by 1 ANP.

Expenses for the funds transfer service are expected to increase \$5.5 million, or 8.2 percent, primarily because of higher data communications costs, reflecting an increase in Fednet costs. However, staffing will decrease by 10 ANP, or 6.5 percent, mainly because of continued conversion of off-line customers to on-line status. Volume is expected to increase 4.7 percent, and unit cost is projected to increase 3.3 percent.

The budget for the automated clearinghouse service is increasing \$4.9 million, or 5.5 percent, mainly because of higher data communications costs, reflecting higher communications costs, higher costs for the ACH system project and the Automation Consolidation special project, and higher overhead costs. Staffing is expected to decrease by 55 ANP, or 16.3 percent, mainly because of District efforts to consolidate processing at head offices and efficiencies from migration to an all-electronic environment. Total ACH volume is projected to increase 12.0 percent in 1993, and the

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1991-93

Thousands of dollars, except as noted

Service	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Supervision of District financial institutions .....	150,353	182,763	219,945	21.6	20.3
Administration of laws and regulations related to banking .....	75,554	80,073	86,379	6.0	7.9
Studies of banking and financial market structures .....	11,462	13,909	14,925	21.3	7.3
<b>Total .....</b>	<b>237,369</b>	<b>276,745</b>	<b>321,249</b>	<b>16.6</b>	<b>16.1</b>

increase is expected to contribute to a 5.8 percent decrease in unit cost.

### Supervision and Regulation

The 1993 budget increase for this operational area of \$44.5 million, or 16.1 percent, over estimated 1992 expenses reflects a staff increase of 300 ANP, increases in merit pay and postemployment benefits (FASB 106), and additional expenses for travel, training, equipment (primarily laptop computers), and overhead. The staff increase is the result of expanded supervisory responsibilities mandated by the FDICIA, including requirements related to supervision of foreign banks and the monitoring of compliance with consumer-protection legislation such as truth in savings. The act increases the frequency of examinations for many institutions and reduces the flexibility to conduct limited-scope examinations.

### Objects of Expense

Personnel expenses—officer and employee salaries, other compensation to personnel, and retirement and other benefits—account for 66.8 percent of Reserve Bank 1993 operating expenses. The 1993 budget for personnel is 9.6 percent greater than estimated 1992 expenses (table 3.11).

Salaries and other personnel expenses, which account for approximately 52 percent of budgeted 1993 operating expenses, are expected to be \$51.0 million, or 6.1 percent, greater than estimated 1992 expenses. Salaries are expected to increase \$50.8 million, or 6.2 percent. Merit pay increases totaling \$35.9 million account for a large portion of the increase. Also contributing to the rise in expenses are promotions, reclassifications, structure adjustments, and staffing level increases. The increases are partially offset by

*Table 3.11*

### Operating Expenses of the Federal Reserve Banks, by Object, 1991-93

Thousands of dollars, except as noted

Object	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
<b>PERSONNEL</b>					
Officers' salaries .....	80,577	84,037	88,778	4.3	5.6
Employees' salaries .....	689,843	741,354	787,461	7.5	6.2
Other personnel <sup>1</sup> .....	12,611	15,585	15,775	23.6	1.2
Retirement and other benefits .....	184,660	207,775	257,957	12.5	24.2
<b>Total personnel</b> .....	<b>967,691</b>	<b>1,048,751</b>	<b>1,149,971</b>	<b>8.4</b>	<b>9.6</b>
<b>NONPERSONNEL</b>					
Forms and supplies .....	54,577	54,267	54,987	-6	1.3
Equipment .....	166,125	176,001	187,942	5.9	6.8
Software .....	32,734	34,024	32,288	3.9	-5.1
Shipping .....	88,175	86,160	81,037	-2.3	-5.9
Travel .....	32,817	36,193	39,106	10.3	8.0
Buildings .....	132,960	139,007	153,375	4.5	10.3
Recoveries .....	-36,946	-40,009	-44,877	8.3	12.2
All other <sup>2</sup> .....	55,799	61,885	68,672	10.9	11.0
<b>Total nonpersonnel</b> .....	<b>526,239</b>	<b>547,528</b>	<b>572,530</b>	<b>4.0</b>	<b>4.6</b>
<b>Total</b> .....	<b>1,493,930</b>	<b>1,596,278</b>	<b>1,722,499</b>	<b>6.9</b>	<b>7.9</b>

1. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.

2. Communications, fees, contra-expenses, shared costs distributed and received, excess capacity, and other.

short-term position vacancies (lag) and lower overtime expenses.

Retirement and other benefits expenses, which account for 15.0 percent of budgeted 1993 operating expenses, are expected to be \$50.2 million, or 24.2 percent, greater than estimated 1992 expenses, primarily because of FASB 106; without the effect of FASB 106, the increase would be \$14.5 million, or 7.0 percent. Also contributing to the increase are the continued escalation of hospital and medical costs, a rise in Social Security taxes, and increased workers compensation insurance costs.

Nonpersonnel expenses, which account for 33.2 percent of budgeted 1993 operating expenses, are projected to increase 4.6 percent over estimated 1992 expenses.

Equipment expenses are expected to increase 6.8 percent, accounting for 10.9 percent of budgeted 1993 operating expenses. Rentals are increasing \$4.2 million, or 19.4 percent, owing to expansion of the all-electronic ACH network, rental of high-speed circuits required for the Fednet system, and the increased cost of leased lines.

Shipping expenses are projected to be 5.9 percent less than estimated 1992 expenses, accounting for 4.7 percent of budgeted 1993 operating expenses. The decrease is due primarily to the consolidation of noncash operations in three Districts and the elimination of cash transportation services in two Districts.

Building expenses, which account for 8.9 percent of budgeted 1993 operating expenses, are expected to increase 10.3 percent in 1993, owing to higher real estate taxes and the full-year effect of recently completed capital projects in a number of Districts. The building projects in New York (EROC) and Dallas contribute heavily to the increase. Also adding to the increase is a rise in rental expenses in Atlanta.

Recoveries are budgeted to increase \$4.9 million, or 12.2 percent, in 1993. Anticipated recoveries associated with rent and fees charged to FRAS by host Banks account for \$4.2 million.

"Other" nonpersonnel expenses are budgeted to increase \$6.8 million over estimated 1992 expenses, accounting for 4.0 percent of 1993 budgeted operating expenses.<sup>5</sup> The increase is due essentially to two factors related to FRAS operations: Banks will be charged for the use of FRAS and will share in the costs incurred by the host sites. The \$26 million increase related to FRAS operations is partly offset by a \$14.5 million reduction for excess capacity (the amount Banks charge to the special project).

Foreign travel expenses, at \$2.8 million (out of a total travel budget of \$39.1 million), account for only 0.2 percent of budgeted 1993 operating expenses, approximately the same level as in 1992. Examiner foreign travel, budgeted at \$1.7 million, is declining 0.5 percent. Foreign travel expenses for Reserve Bank presidents and first vice presidents total \$172,000, a decrease of 19.9 percent from estimated 1992 expenses; of this amount, \$109,600 is for New York, primarily for that District's participation in the work of the Bank for International Settlements.

## Capital Outlays

Capital outlays at the Reserve Banks are budgeted at \$265.7 million, an increase of \$31.4 million, or 13.4 percent, over

---

5. The budget for "other" nonpersonnel expenses reflects automation consolidation accounting procedures developed by a System group. The procedures separate expenditures for automation consolidation from expenditures for ongoing operations and treat FRAS as a separate entity.

estimated 1992 expenses. FRAS capital outlays are projected to be \$72.6 million, a decrease of \$34.1 million, or 32 percent, from estimated 1992 outlays. Capital outlays including FRAS are budgeted at \$338.3 million, a decrease of \$2.7 million, or 0.8 percent (table 3.12).

Significant increases in Reserve Bank outlays result from development of the Fednet communications system and the acquisition and installation of new ISS 3000 cash processors. Offsetting these increases are decreases resulting from completion of two major building projects, Dallas's head office building and New York's East Rutherford Operations Center.

Outlays for data processing and data communications equipment in 1993 are budgeted at \$103.9 million, approximately 39 percent of total capital outlays. Approximately one-third of these outlays (\$33.7 million) are for equipment for Fednet. Two components of the Fednet project that were included in the 1992 budget have been deferred until 1993, and FRAS's requirements for Fednet are greater than anticipated. Excluding Fednet, the 1993 budget for

data processing and data communications equipment is approximately 13 percent less than estimated 1992 expenses. Other major outlays in this category for 1993 include \$16.0 million for check reader-sorters in several Districts; \$12.7 million for central processing units, primarily for Unisys Check Processors in Atlanta (\$4.1 million) and Chicago (\$2.9 million) and computer upgrades in New York (\$2.6 million); and \$12.7 million for new personal computer workstations in all Districts.

FRAS-related data processing and data communications equipment outlays are budgeted at \$70.6 million in 1993. This includes three new central processing units (\$17.2 million), disks to meet additional storage requirements (\$37 million), two new tape drives (\$3.5 million), channel extenders (\$3.2 million), and communication controllers (\$4.3 million).

Purchases of furniture and other equipment are budgeted at \$67.3 million, about 25 percent of total capital outlays. About one-third of this amount (\$20.8 million) will go for ISS 3000 cash processors, to be installed at Boston, New York, Richmond, Chicago,

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1991-93

Thousands of dollars, except as noted

Class of outlay	1991 actual	1992 estimate	1993 budget	Percentage change	
				1991 to 1992	1992 to 1993
Data processing and data communications equipment <sup>1</sup> .....	64,808	172,536	174,584	...	1.2
Buildings .....	134,333	63,556	68,912	-52.7	8.4
Furniture, furnishings, and fixtures .....	13,103	27,332	23,852	108.6	-12.7
Other equipment .....	18,328	31,887	43,417	74.0	36.2
Land and other real estate .....	3,315	4,393	6,096	32.5	38.8
Building machinery and equipment .....	4,874	24,196	12,376	396.4	-48.9
Leasehold improvements .....	1,194	2,360	1,880	97.7	-20.3
Software <sup>2</sup> .....	...	14,810	7,231	...	-51.2
<b>Total</b> .....	<b>239,954</b>	<b>341,070</b>	<b>338,348</b>	<b>42.1</b>	<b>-8</b>

1. Includes FRAS capital of \$93,195,000 in 1992 and \$70,649,000 in 1993.

2. Includes FRAS capital of \$13,595,000 in 1992 and \$2,000,000 in 1993.

and San Francisco. Another \$7.5 million will be spent on other cash-related equipment, including counterfeit detectors in New York (\$2.7 million) and systems for handling cash materials in Philadelphia, Chicago, and San Francisco (\$1.4 million). Atlanta has budgeted \$6.0 million for staff relocation and department renovations, and several other Districts are planning furniture purchases, renovation, and remodeling.

Building outlays are budgeted at \$68.9 million, about 26 percent of total capital outlays. Included are renovation projects associated with automation consolidation in Richmond (\$13.1 million), New York (\$3.3 million), and Dallas (\$0.3 million) and preparation of cash areas for the new ISS 3000 cash processors (\$10.9 million) in several Districts. Also included are two building projects, Cleveland's building expansion (\$8.7 million) and consulting fees associated with the planned new facility for Minneapolis (\$7.8 million).

Outlays for land and other real estate are budgeted at \$6.1 million, primarily for land and related fees for the new Minneapolis building.

Expenditures on building machinery and equipment are budgeted at \$12.4 million, primarily for UPS (uninterrupted power supply) and emergency generators at several offices (\$5.7 million). The remaining outlays will allow several Districts to upgrade or replace existing machinery and equipment.

Software outlays planned for 1993 total \$5.2 million. Philadelphia has budgeted \$2.0 million on behalf of the seven Districts that constitute the Unisys Users' Group. In addition, New York has budgeted \$1.5 million for its Market Data Distribution System to meet the Bank's need for timely and accurate market data. FRAS plans software purchases for one additional central processing unit as well as software to meet

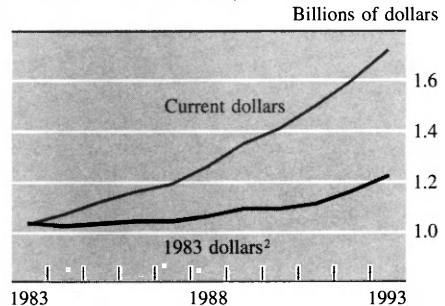
additional functionality requirements (\$2.0 million).

**Trends in Expenses and Employment**

Over the ten years ending with the 1993 budget, Reserve Bank expenses have increased an average of 5.3 percent per year (chart 3.1). Over the past five years, the increase has averaged 6.4 percent per year. Increases in expenses have been higher since 1987 because of expanded bank supervision needs and implementation of the Expedited Funds Availability Act.

The number of employees at the Reserve Banks has increased from 22,883 ANP in 1983 to 24,286 ANP in 1993, an increase of 1,403 ANP (chart 3.2). Since 1983, staffing has increased in supervision and regulation (1,067 ANP), check services (461 ANP), and data processing (350 ANP) owing to expanded responsibilities in these areas. Partially offsetting these increases have been decreased staff in overhead services (345 ANP) resulting from System-wide efforts to control overhead expenses.

Chart 3.1  
Operating Expenses of the  
Federal Reserve Banks, 1983-93<sup>1</sup>



1. For 1992, estimate; for 1993, budget.  
2. Calculated with the GDP price deflator.

## Volume and Unit Costs

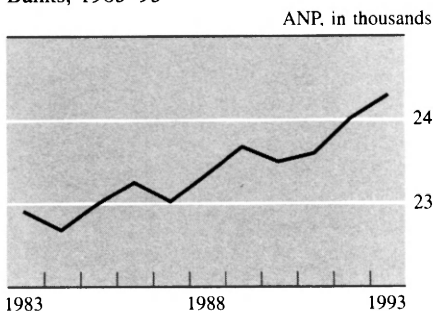
Volume for all measured operations is expected to increase 2.3 percent over 1992 volume, and unit cost is expected to rise 3.6 percent (table 3.13). Since 1988, volume has increased at an average annual rate of 2.4 percent and unit cost at a rate of 2.3 percent. The increase in unit cost expected for 1993 reflects a rise in unit cost in all areas except ACH. The commercial check service, the largest component in the overall index, expects an increase in volume of 0.5 percent and an increase in unit cost of 4.4 percent. The cash services, the second largest component, expect an increase in volume of 4.6 percent and an increase in unit cost of 3.6 percent.

## 1992 Budget Performance

The 1992 Reserve Bank budgets, which were approved in December 1991, totaled \$1,596.4 million, an expected increase of \$94.8 million, or 6.3 percent, over estimated 1991 expenses. The Banks now estimate that 1992 expenses were \$1,596.3 million, \$0.1 million under the approved budget. At this estimated level of spending, the increase over the actual 1991 level is 7.0 percent.

Chart 3.2

Employment at the Federal Reserve Banks, 1983-93<sup>1</sup>



1. For 1992, estimate; for 1993, budget. See text note 2 for definition of ANP.

Table 3.13

Volume and Unit Costs of Federal Reserve Bank Services

Percentage change from 1992 to 1993

Service	Volume	Unit cost
Payments .....	2.4	3.1
Commercial check .....	.5	4.4
Automated clearinghouse .....	12.0	-5.8
Funds transfer .....	4.7	3.3
Other checks .....	-1.2	12.6
Cash .....	4.6	3.6
Fiscal .....	-2	7.7
Securities and noncash .....	-2.0	1.4
<b>All measured services .....</b>	<b>2.3</b>	<b>3.6</b>

Because FDICIA, legislation that mandated increased responsibilities for the Reserve Banks, was passed late in the budget process, several Districts expected to incur costs not included in their original 1992 budgets. The Banks did increase staff and expenses during 1992 in support of FDICIA, with direct expenses in supervision and regulation \$12.0 million greater than originally budgeted; in addition, 150 ANP were added for this effort. However, the Banks were able to offset this increase.

Six Banks expect to be over their approved 1992 budgets. Seven Banks expect to be within 1.0 percent of their budgets. Two Banks expect overruns of more than 1.0 percent—Philadelphia (2.0 percent) and Cleveland (1.1 percent). At Philadelphia, the overrun is due mainly to unusual developments in check operations: Volume is running 14 percent higher than anticipated, and the Bank has added resources in a continuing effort to reduce adjustment backlogs. Cleveland's expenses are expected to be over budget mostly because of unanticipated expenses for shared costs and miscellaneous fees. Three Banks expect underruns of more than 1.0 percent—Boston (1.8 percent),

Chicago (2.0 percent), and Dallas (1.2 percent). At Boston, a greater-than-anticipated reduction in real estate taxes and an unanticipated drop in check volume are the main reasons for the underrun. Chicago will be under budget because of a real estate tax credit. Dallas expects to pay less tax on its new building because the appraised value is much lower than had been anticipated. Dallas also expects unbudgeted recoveries for rent and fees from FRAS. ■

## Chapter 3

# Federal Reserve Banks

The 1994 operating budgets of the twelve Federal Reserve Banks approved by the Board of Governors total \$1,808.2 million, an increase of \$88.9 million, or 5.2 percent, over estimated 1993 expenses (table 3.1). Not included in these figures are the costs of two Bank special projects—Development of Currency Authentication Systems (\$1.3 million) and Automation Consolidation (\$66.9 million).<sup>1</sup> Including the costs of the special projects, the Banks' 1994 budgets total \$1,876.5 million, an increase of \$73.8 million, or 4.1 percent.

Employment excluding the staff associated with the special projects is budgeted at 23,922 ANP (average number of personnel), a decrease of 288 ANP, or 1.2 percent, from estimated 1993 employment.<sup>2</sup> Including the special projects staff, total budgeted employment is 24,363, a decrease of 220 ANP from estimated 1993 employment.<sup>3</sup>

1. The budget for the Automation Consolidation special project includes expenses for the twelve Districts and FRAS (Federal Reserve Automation Services, the unit responsible for consolidated data processing of Reserve Banks). FRAS charges to the Automation Consolidation special project in 1994 are budgeted at \$41.3 million.

2. The term *average number of personnel* describes levels and changes in employment at the Banks. ANP measures the number of employees in terms of full-time positions for the time period. For instance, a full-time employee who starts work July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start January 1 count as 1 ANP. Because the Banks' accounting system carries calculations related to employment to two decimal places but employment in this volume is expressed in whole numbers, rounding error may result in slight discrepancies in employment figures among the tables in this volume.

3. For presentation purposes, FRAS staff is

Expenses for personnel (salaries and benefits) account for \$1,175.4 million, or 65 percent of Reserve Bank expenses budgeted for 1994, an increase of \$27.4 million, or 2.4 percent, over 1993 personnel expenses (table 3.2). Nonpersonnel expenses (primarily for building and automation projects) are budgeted at \$632.8 million, an increase of \$61.4 million, or 10.7 percent, over estimated 1993 nonpersonnel expenses.

The following two sections discuss major initiatives and the budget objective for the Reserve Banks in 1994. Subsequent sections provide details for the four operational areas as well as objects of expense, capital outlays, and long-term trends. Appendix A gives more information on capital outlays, special projects, and other special categories of expense, and appendix D gives additional data by District and operational area.

## Major Initiatives

The 1994 Reserve Bank budgets provide for the following initiatives (table 3.3):

- Installation of the Fednet communications network
- Continuation of the automation consolidation project
  - Installation of new high-speed currency processors
  - Upgrading of check-processing equipment
  - Continued expansion of efforts in supervision and regulation

included with the Automation Consolidation special project.

24 *Annual Report: Budget Review, 1993-94*

- Continuation of the regionalization of savings bond operations
- Implementation of same-day settlement requirements
- Early retirement programs in several Districts.

Funds for Fednet, \$26.7 million, will be used to install network equipment and additional circuits and to establish a second Network Management Control Center, in Richmond. The increases for Fednet are being partially offset by lower costs for local circuits within Districts.

The automation consolidation initiative is budgeted at \$9.8 million. The largest portion of this amount is related to FRAS production charges. Partially

offsetting expenditures for this initiative are savings associated with the closing of local data processing centers and reductions in data processing staff.

Initiatives related to currency handling are adding \$6.2 million to the 1994 budget. Seven Districts have budgeted a total of \$3.4 million for new cash-processing machines. Other Districts will be preparing for installation of new processors and will incur capital expenditures for renovation and remodeling of cash work areas.

Upgrading of check-processing equipment will increase expenditures by \$5.4 million. Six Banks had postponed upgrading their check equipment until new processing software was tested; the software was installed during late 1993,

Table 3.1

Expenses and Employment at the Federal Reserve Banks, 1993 and 1994<sup>1</sup>

Category	1993 estimate	1994 budget	Change	
			Amount	Percentage
<i>Expenses (millions of dollars)</i>				
Operations <sup>2</sup> .....	1,719.4	1,808.2	88.9	5.2
Special projects .....	83.3	68.3	-15.0	...
Total .....	1,802.7	1,876.5	73.8	4.1
<i>Employment (average number of personnel)<sup>3</sup></i>				
Operations <sup>2</sup> .....	24,210	23,922	-288	-1.2
Special projects .....	373	441	68	...
Total .....	24,583	24,363	-220	-9

1. Excludes capital outlays.

2. Includes support and overhead (see appendix D, table D.3, note 1, for definitions).

3. See text note 2 for definition of average number of personnel.

Table 3.2

Operating Expenses of the Federal Reserve Banks, by Object, 1992-94<sup>1</sup>

Millions of dollars, except as noted

Object	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Personnel .....	1,043.1	1,148.0	1,175.4	10.1	2.4
Nonpersonnel .....	546.2	571.4	632.8	4.6	10.7
<b>Total</b> .....	<b>1,589.3</b>	<b>1,719.4</b>	<b>1,808.2</b>	<b>8.2</b>	<b>5.2</b>

1. Includes the costs of support and overhead (see appendix D, table D.3, note 1, for definitions). Excludes special projects.

and equipment upgrading will continue throughout 1994. A few Banks will also add imaging capabilities in 1994. In addition, the Philadelphia Bank will replace its check-processing equipment and related software and will add 11 ANP to handle testing, training, and parallel processing. The New York and St. Louis Banks will also upgrade their check-processing equipment to accommodate remote processing.

Expanded efforts in supervision and regulation are projected to increase expenses \$5.3 million and to add 72 ANP in 1994. The rise is due mainly to increasing responsibilities stemming from FDICIA. Local supervision and regulation initiatives in two Districts, Boston and San Francisco, are adding \$1.7 million and 26 ANP. Also contributing to the 1994 increase is the full-year impact of examiners hired during 1993.

The savings bond regionalization initiative is adding \$2.8 million to the Reserve Banks' total 1994 budget. In 1992, the Department of the Treasury decided to consolidate savings bond

operations in the Federal Reserve System. Five Districts—New York (Buffalo office), Cleveland (Pittsburgh office), Richmond, Minneapolis, and Kansas City—were designated processing sites. Consolidation of operations, including original issuance, servicing, and direct redemption, is targeted for completion by 1996. The five regional sites have budgeted approximately \$6.0 million, which will be partially offset by cost reductions of \$3.1 million in the other Districts.

Partially offsetting these increases are savings of \$3.4 million from implementation of same-day settlement requirements. In essence, checks presented by 8:00 a.m. at the location specified by the payor will be settled on the same day without a presentment fee. The short-term consequences of this requirement in most Districts will be a substantial decline in volume. In anticipation of the decline, the Reserve Banks have budgeted to reduce check-processing staff by 106 ANP.

### 1994 Budget Objective

In 1993, the Board of Governors approved a 1994 Reserve Bank budget objective that provided for a 3.4 percent increase in ongoing general operating expenses over total 1993 operating expenses. The Board also anticipated that expenses for two budget objective factors, automation consolidation and Fednet, would add 2.3 percentage points to the 1994 budget. Table 3.4 compares the 1994 budget objective with the 1994 budget, both expressed in terms of percent increase over 1993 expenses.

The 1994 increase for general operating expenses is 0.4 percentage point less than the budget objective, primarily because of savings associated with staff reductions for commercial check processing. Several Districts have budgeted

Table 3.3  
Major Initiatives of the  
Federal Reserve Banks, 1994

Initiative	Millions of dollars	Percentage of 1994 operating budget
Fednet .....	26.7	1.6
Automation consolidation ....	9.8	.6
Currency initiatives .....	6.2	.4
Check equipment upgrades ...	5.4	.3
Supervision and regulation ...	5.3	.3
Savings bond regionalization .	2.8	.2
Same-day settlement .....	-3.4	-.2
Early retirement programs .....	-1.5	-.1
<b>Total</b> .....	<b>51.3</b>	<b>3.1</b>
<b>MEMO</b>		
Increase in total operating expenses, 1993 estimate to 1994 budget .....	88.9	5.2

26 *Annual Report: Budget Review, 1993-94*

Table 3.4

1993 Budget Objective and Budget of the Federal Reserve Banks<sup>1</sup>

Percent change from 1993 expenses

Item	Budget objective	Budget
General operating expenses .....	3.4	3.0
Budget objective factors .....	2.3	2.2
Total before special projects ...	5.7	5.2
MEMO		
Special projects .....	-1.9	-1.1
<b>Total including special projects ..</b>	<b>3.8</b>	<b>4.1</b>

1. See data on expenses in table 3.1.

for lower staff levels in anticipation of reduced volume resulting from same-day settlement requirements and operational efficiencies achieved through implementation of the automation consolidation initiative.

The increase of \$36.5 million for budget objective factors is \$6.2 million, or 0.1 percentage point, lower than the target approved by the Board. The automation consolidation factor is \$18.7 million lower than the objective because of changes in the transition schedule, and the Fednet factor is \$12.5 million higher than the budget objective because of increased expenses

for circuits, equipment, staff to support implementation, and the establishment of a second Network Management Control Center.

The 1994 budget for Bank special projects is \$18.0 million higher than the budget objective. Projected costs of the Automation Consolidation special project decreased by only half the amount anticipated at the time the budget objective was set, principally because FRAS's excess capacity charges to the special project are expected to be higher than originally projected.

## Operational Areas

Tables 3.5 and 3.6 summarize expenses and employment for the Reserve Banks' four operational areas. Tables 3.7 through 3.10 give details for each area.

## Monetary and Economic Policy

The 1994 budget for the monetary and economic policy operational area is \$7.7 million, or 6.6 percent, larger than estimated 1993 expenses. The increase reflects changes in the way support and overhead expenses are charged to operational areas, higher costs for library services, and increased costs for the

Table 3.5

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1992-94<sup>1</sup>

Thousands of dollars, except as noted

Operational area	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Monetary and economic policy .....	109,953	116,167	123,865	5.6	6.6
Services to the U.S. Treasury and other government agencies .....	182,307	198,106	218,042	8.7	10.1
Services to financial institutions and the public .....	1,020,974	1,076,363	1,109,494	5.4	3.1
Supervision and regulation .....	276,038	328,719	356,823	19.1	8.5
<b>Total .....</b>	<b>1,589,273</b>	<b>1,719,355</b>	<b>1,808,224</b>	<b>8.2</b>	<b>5.2</b>

1. Excludes special projects.

Statistics Series Processing (STAT) system project. The staff decrease, 6 ANP, is due largely to a shift of resources between operational areas.

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

The 1994 budget for services to the Treasury and other government agencies is \$19.9 million, or 10.1 percent, higher than estimated 1993 expenses. The increase is due mainly to the impact of savings bond regionalization and to higher costs for automation consolidation and Fednet. The staffing level is

budgeted to increase by 11 ANP, mainly because of the consolidation of savings bond operations; the increase is being partially offset by decreases in other operational areas related to declining volumes and operational efficiencies.

### Services to Financial Institutions and the Public

Expenses for this operational area, which encompasses both priced and nonpriced services, are budgeted to increase \$33.1 million, or 3.1 percent, in 1994. The staffing level will decrease by 264 ANP, mainly in the commercial check

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1992-94<sup>1</sup>

Average number of personnel, except as noted<sup>2</sup>

Activity	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
<i>Operational areas</i>					
Monetary and economic policy .....	776	762	756	-1.8	-9
Services to the U.S. Treasury and other government agencies .....	1,832	1,849	1,860	.9	.6
Services to financial institutions and the public .....	8,878	8,612	8,348	-3.0	-3.1
Supervision and regulation .....	2,587	2,945	3,042	13.9	3.3
<i>Support and overhead<sup>3</sup></i>					
Support .....	4,711	4,814	4,679	2.2	-2.8
Overhead .....	4,998	5,227	5,237	4.6	.2
<b>Total .....</b>	<b>23,782</b>	<b>24,210</b>	<b>23,922</b>	<b>1.8</b>	<b>-1.2</b>

1. Excludes special project and FRAS ANP.

2. See text note 2 for definition of average number of personnel.

3. See appendix D, table D.3, note 1, for definitions.

Table 3.7

Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1992-94<sup>1</sup>

Thousands of dollars, except as noted

Service	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Economic policy determination .....	89,713	94,718	99,247	5.6	4.8
Open market trading .....	20,240	21,449	24,618	6.0	14.8
<b>Total .....</b>	<b>109,953</b>	<b>116,167</b>	<b>123,865</b>	<b>5.7</b>	<b>6.6</b>

1. Excludes special projects.

28 *Annual Report: Budget Review, 1993-94*

(197 ANP), automated clearinghouse (25 ANP), and definitive securities (22 ANP) services.

The commercial check service accounts for nearly half the expenses budgeted for this operational area and employs 5,078 ANP. The anticipated increase in expenses—\$15.6 million, or 3.0 percent over estimated 1993

expenses—is due mainly to Systemwide upgrades of check-processing equipment. The staffing level for this service is expected to decline by 197 ANP, or 3.7 percent, owing to continued automation, downsizing in anticipation of volume losses resulting from implementation of same-day settlement requirements, and continued improvements in opera-

Table 3.8

Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1992-94<sup>1</sup>

Thousands of dollars, except as noted

Service	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Savings bonds .....	34,089	38,660	17,599	13.4	-54.5
Consolidated operations—savings bonds .....	32,176	38,802	71,355	20.6	83.9
Other Treasury issues .....	17,499	18,383	18,479	5.1	.5
Consolidated operations—other Treasury issues .....	1,279	1,130	2,169	-11.6	91.9
Centrally provided Treasury and agency services .....	23,119	22,818	22,068	-1.3	-3.3
Government accounts .....	26,425	28,199	33,315	6.7	18.1
Food coupons .....	19,713	21,441	22,423	8.8	4.6
Other .....	28,007	28,672	30,635	2.4	6.8
<b>Total .....</b>	<b>182,307</b>	<b>198,106</b>	<b>218,042</b>	<b>8.7</b>	<b>10.1</b>

1. Excludes special projects.

Table 3.9

Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1992-94<sup>1</sup>

Thousands of dollars, except as noted

Service	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Currency .....	158,789	177,978	190,452	12.1	7.0
Coin .....	24,721	25,354	26,375	2.6	4.0
Special cash .....	12,273	6,256	5,945	-49.0	-5.0
Commercial check .....	502,676	526,135	541,781	4.7	3.0
Other check .....	29,756	32,934	36,657	10.7	11.3
Funds transfer .....	64,487	70,334	70,858	9.1	.7
Automated clearinghouse .....	87,314	90,475	88,705	3.6	-2.0
Book-entry securities transfers .....	33,160	33,174	35,002	*	5.5
Definitive securities safekeeping and noncash collection .....	13,215	11,773	8,276	-10.9	-29.7
Loans to member banks and others .....	16,310	17,908	19,176	9.8	7.1
Public programs .....	51,094	56,787	59,261	11.1	4.4
Other .....	27,179	27,255	27,007	.3	-9
<b>Total .....</b>	<b>1,020,974</b>	<b>1,076,363</b>	<b>1,109,494</b>	<b>5.4</b>	<b>3.1</b>

1. Excludes special projects.

\* Less than 0.05 percent.

tions. The volume of commercial checks processed is expected to decline 3.3 percent, and unit cost is budgeted to increase 4.5 percent.

Expenses for the currency service are expected to increase \$12.5 million, or 7.0 percent, mainly because of the installation of new cash-processing machines and materials-handling systems. The staffing level will increase by 4 ANP. The volume of currency processed is expected to grow 2.3 percent in 1994, and the unit cost is expected to increase 5.0 percent.

Expenses for the funds transfer service are expected to increase \$0.5 million, or 0.7 percent, primarily because of higher data communications costs. However, staffing will decrease by 9 ANP, or 6.8 percent. Volume and unit cost are projected to increase 0.4 percent.

The budget for the automated clearinghouse (ACH) service is decreasing \$1.8 million, or 2.0 percent, mainly because of staff savings in many Districts. Staffing is expected to decrease by 25 ANP, or 10.5 percent, mainly because of the successful transition to an all-electronic ACH and efforts in several Districts to consolidate ACH functions into one office. The savings are being partially offset by increased data communications costs. Total ACH volume is

projected to increase 14.0 percent in 1994, and the increase will contribute to a 14.0 percent decline in unit cost.

## Supervision and Regulation

The 1994 budget increase for the supervision and regulation operational area of \$28.1 million, or 8.5 percent, over estimated 1993 expenses reflects a staff increase of 97 ANP, merit pay raises, additional expenses for travel, training, and equipment, and higher overhead. The staff increase is the result of implementation of FDICIA and initiatives in several Districts to meet the requirements of expanding supervision and regulation functions.

## Objects of Expense

Personnel expenses—officer and employee salaries, other compensation to personnel, and retirement and other benefits—account for 65 percent of Reserve Bank 1994 operating expenses. The 1994 budget is 2.4 percent greater than estimated 1993 expenses (table 3.11).

Salaries and other personnel expenses, which account for approximately 50 percent of budgeted 1994

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1992-94<sup>1</sup>

Thousands of dollars, except as noted

Service	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Supervision of District financial institutions .....	183,278	225,439	244,240	23.0	8.3
Administration of laws and regulations related to banking .....	79,635	88,248	96,516	10.8	9.4
Studies of banking and financial market structures .....	13,125	15,031	16,067	14.5	6.9
<b>Total .....</b>	<b>276,038</b>	<b>328,719</b>	<b>356,823</b>	<b>19.1</b>	<b>8.5</b>

1. Excludes special projects.

operating expenses, are expected to be \$10.3 million, or 1.1 percent, greater than estimated 1993 expenses. Expenses for salaries are expected to increase \$18.4 million, or 2.1 percent. Merit pay raises account for a large portion of the increase. Also contributing to the rise in expenses are promotions, reclassifications, and structure adjustments. The increases are being partially offset by savings resulting from early retirement programs, short-term position vacancies (lag), reduced overtime expenses, and a budget year shorter by one business day.

Expenditures for retirement and other benefits, which account for 14.9 percent of 1994 budgeted operating expenses, are expected to be \$17.2 million, or 6.8 percent, greater than estimated 1993 expenses, for several reasons: higher post-employment benefits due to early retirement programs and a Systemwide reassessment by outside consultants of

each District's FASB 106 liability; a Systemwide group life insurance increase resulting from the 1993 premium holiday; continuing increases in hospital and medical costs; a rise in social security taxes; and an increase in the budget assessment for operational costs by the Office of Employee Benefits.

Nonpersonnel expenses, which account for 35.0 percent of budgeted 1994 operating expenses, are projected to increase 10.7 percent over estimated 1993 expenses.

Equipment expenses are expected to increase 6.5 percent, accounting for 10.8 percent of budgeted 1994 operating expenses. Repairs and maintenance costs are increasing \$5.7 million, or 9.5 percent, mainly because of the installation of new cash processors and new check-processing equipment. Rental costs are increasing \$5.2 million, or 19.6 percent, owing to the full-year impact of Fednet.

*Table 3.11*

Operating Expenses of the Federal Reserve Banks, by Object, 1992-94<sup>1</sup>

Thousands of dollars, except as noted

Object	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
<b>PERSONNEL</b>					
Officers' salaries .....	84,676	87,837	89,360	3.7	1.7
Employees' salaries .....	734,738	780,477	797,331	6.2	2.2
Other personnel <sup>2</sup> .....	18,119	26,563	18,474	46.6	-30.5
Retirement and other benefits .....	205,523	253,084	270,282	23.1	6.8
Total personnel .....	1,043,057	1,147,961	1,175,447	10.1	2.4
<b>NONPERSONNEL</b>					
Forms and supplies .....	54,531	54,638	53,967	.2	-1.2
Equipment .....	174,722	182,782	194,603	4.6	6.5
Software .....	33,589	32,817	31,454	-2.3	-4.2
Shipping .....	85,458	80,005	79,436	-6.4	-7
Travel .....	36,033	41,630	41,816	15.5	.4
Buildings .....	140,556	148,966	155,296	6.0	4.2
Recoveries .....	-39,891	-45,290	-46,787	13.5	3.3
Other <sup>3</sup> .....	61,216	75,847	122,993	23.9	62.2
Total nonpersonnel .....	546,215	571,394	632,778	4.6	10.7
<b>Total .....</b>	<b>1,589,273</b>	<b>1,719,355</b>	<b>1,808,224</b>	<b>8.2</b>	<b>5.2</b>

1. Excludes special projects.

2. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.

3. Communications, fees, contra-expenses, shared costs distributed and received, excess capacity, and other.

Depreciation is increasing \$2.8 million, or 3.2 percent, as a result of the installation of new currency-processing and check-processing equipment and Fednet.

Software expenses, which account for 1.7 percent of Reserve Bank budgeted 1994 operating expenses, are expected to decline \$1.4 million, or 4.2 percent, from estimated 1993 expenses as a result of automation consolidation.

Shipping expenses are projected to be 0.7 percent lower than estimated 1993 expenses, accounting for 4.4 percent of budgeted 1994 operating expenses. The decrease is due to savings bond regionalization, discontinuation of the System's definitive safekeeping service, and the Cincinnati Branch's withdrawal from the cash transportation service.

Building expenses, which account for 8.6 percent of budgeted 1994 operating expenses, are expected to increase 4.2 percent in 1994 owing to the completion in 1993 of various capital projects, which created a \$4.1 million increase in depreciation. Also adding to the increase is a rise in rental expenses in Atlanta.

"Other" nonpersonnel expenses are budgeted to increase \$47.1 million over estimated 1993 expenses, accounting for 6.8 percent of 1994 operating expenses. The increase is due mainly to two factors related to FRAS: Banks will be charged for the use of FRAS and will share in the costs incurred by the host sites. The increase related to FRAS operations is being partially offset by a reduction for excess capacity.

### Capital Outlays

Capital outlays by the Reserve Banks are budgeted at \$271.1 million, an increase of \$41.5 million, or 18.1 percent, over estimated 1993 expenses. FRAS capital outlays are projected to be

\$84.1 million, a decrease of \$4.4 million, or 5 percent, from estimated 1993 outlays. Capital outlays including FRAS are budgeted at \$355.3 million, an increase of \$37.1 million, or 11.7 percent (table 3.12).

Significant increases are resulting from the building expansion in Cleveland and the new building program in Minneapolis. Offsetting these increases are decreases resulting from lower disk purchases for FRAS, the completion of renovations to the Richmond Office building for the FRAS data center and office space, and the completion of the Dallas building project.

Outlays for data processing and data communications equipment in 1994 are budgeted at \$153.2 million, approximately 43 percent of total capital outlays. More than half the amount is for FRAS (\$59.0 million) and for equipment related to Fednet (\$26 million). The outlays for FRAS are mainly for additional disk to provide support for the increasing consolidated workload, prepaid maintenance, and a new central processing unit to handle District-unique workloads. During 1994, Fednet will purchase dynamic bandwidth management controllers, modems, technical control equipment, and high-speed link encryptors, creating a unified network for all Federal Reserve Banks and their customers. Excluding FRAS and Fednet, the System has budgeted \$17.7 million for CPUs. More than half the amount for CPUs is for replacement of CPUs at the New York head office and EROC, needed to relieve existing constraints on capacity and to accommodate a projected workload increase and the proposed one-year delay in the consolidation of the Bank's workload to FRAS (\$9 million); the remainder is related to the upgrading of check-processing systems in several Districts. Other major outlays for data processing and data

32 *Annual Report: Budget Review, 1993-94*

communications in the 1994 budget include \$14.8 million for check reader-sorters; \$12.4 million for input devices, mainly PC work stations; and \$10.4 million for storage devices.

Building outlays are budgeted at \$87.7 million, about 25 percent of total capital outlays. Included are the new building in Minneapolis (\$17.1 million), the proposed building project in Atlanta (\$6.0 million), a building renovation and expansion project in Cleveland (\$22.0 million), office space renovations in all Districts except Minneapolis (\$19.7 million), and upgrading of the electrical distribution system in Boston (\$5.0 million).

Purchases of furniture and other equipment are budgeted at \$69.5 million, about 20 percent of total capital outlays. Approximately 48 percent of this amount (\$33.1 million) will go for cash processors, to be installed at Boston, Philadelphia, Richmond, Atlanta, Chicago, Dallas, and San Francisco. Another \$6.6 million will be spent on other cash-related equipment, and \$14.8 million will be spent on carpeting and furniture upgrades.

Expenditures for building machinery and equipment are budgeted at \$8.3 million. About one-third of this amount is for replacement of the heating, ventilation, and air conditioning system in Richmond (\$1.8 million) and for replacement and upgrading of the central plant's primary mechanical and electrical distribution equipment in Kansas City (\$1.0 million). The remaining amount will allow several Districts to upgrade or replace existing machinery and equipment.

Software outlays planned for 1994 total \$28.4 million. The majority of the software is for the FRAS mainframe computer (\$25.1 million). The remainder is primarily for check-processing software for several Districts (\$2.3 million).

### Trends in Expenses and Employment

Over the ten years ending with the 1994 budget, Reserve Bank expenses have increased by an average of 5.4 percent a year (chart 3.1). Over the past five years, the increase has averaged 6.0 percent a

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1992-94

Thousands of dollars, except as noted

Class of outlay	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Data processing and data communications equipment <sup>1</sup> .....	164,350	164,596	153,164	.1	-6.9
Buildings .....	61,094	62,065	87,661	1.6	41.2
Furniture, furnishings, and fixtures .....	24,955	23,677	17,153	-5.1	-27.6
Other equipment <sup>2</sup> .....	24,520	40,296	52,300	64.3	29.8
Land and other real estate .....	2,496	1,415	6,811	-43.3	381.5
Building machinery and equipment .....	24,638	13,706	8,334	-44.4	-39.2
Leasehold improvements .....	1,740	1,645	1,390	-5.4	-15.5
Software <sup>3</sup> .....	10,902	10,785	28,445	-1.1	163.7
<b>Total</b> .....	<b>314,693</b>	<b>318,184</b>	<b>355,258</b>	<b>1.1</b>	<b>11.7</b>

1. Includes FRAS capital of \$85,930 thousand in 1992, \$85,360 thousand in 1993, and \$58,982 thousand in 1994.

2. Includes FRAS capital of \$41 thousand in 1993 and \$54 thousand in 1994.

3. Includes FRAS capital of \$10,357 thousand in 1992, \$3,173 thousand in 1993, and \$25,109 thousand in 1994.

year. Increases in expenses have been higher since 1987 because of expanded bank supervision needs and implementation of the Expedited Funds Availability Act.

The number of employees at the Reserve Banks has increased from 22,669 in 1984 to 23,922 in 1994, an increase of 1,253 ANP (chart 3.2). Since 1984, staffing has increased in supervision and regulation (1,157 ANP), check services (195 ANP), and data processing (260 ANP) owing to expanded responsibilities in these areas. Partially offsetting these increases have been decreased staff in overhead services (189 ANP) resulting from Systemwide efforts to control overhead expenses. Consolidation of operations, together with operational improvements, is resulting in a combined decrease of 93 ANP in the funds transfer and ACH services.

### Volume and Unit Costs

The volume of measured services as a whole is expected to decline 0.1 percent from 1993 volume, and the unit cost is expected to rise 2.7 percent (table 3.13). Since 1989, volume has increased at an average annual rate of 1.3 percent and

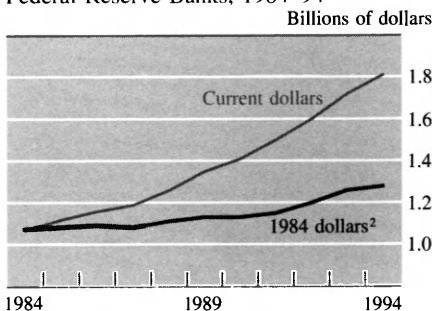
unit cost at a rate of 2.6 percent. The increase in unit cost expected for 1994 reflects a rise in unit cost for all services except ACH and other Treasury services (the latter, a component of fiscal services). The commercial check service, the largest component of the overall index, expects a decrease in volume of 3.3 percent and an increase in unit cost of 4.5 percent. The currency service, the second largest component, expects an increase in volume of 2.3 percent and an increase in unit cost of 5.0 percent.

### 1993 Budget Performance

The 1993 Reserve Bank budgets for operations, which were approved in December 1992, totaled \$1,722.5 million, an expected increase of \$126.2 million, or 7.9 percent, over estimated 1992 expenses. The Banks now estimate that 1993 expenses for operations totaled \$1,719.4 million, which is \$3.1 million under the approved budget.

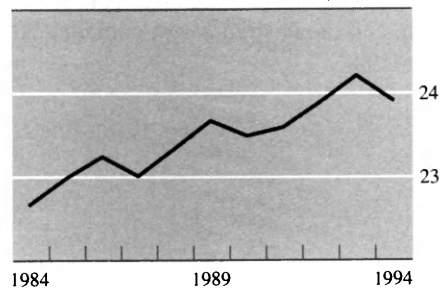
Six Banks expect to be over their approved 1993 budgets, five expect to be under budget, and one expects to be virtually on target. Eight Banks expect to be within 1.0 percent of their approved 1993 budgets. Three Banks

Chart 3.1  
Operating Expenses of the  
Federal Reserve Banks, 1984–94<sup>1</sup>



1. For 1993, estimate; for 1994, budget.
2. Calculated with the GDP price deflator.

Chart 3.2  
Employment at the  
Federal Reserve Banks, 1984–94<sup>1</sup>



1. For 1993, estimate; for 1994, budget. See text note 2 for definition of ANP.

Table 3.13

Volume and Unit Costs of Measured  
Federal Reserve Bank Services

Percentage change from 1993 to 1994

Service	Volume	Unit cost
Payments .....	-3	1.5
Commercial check .....	-3.3	4.5
Automated clearinghouse .....	14.0	-14.0
Funds transfer .....	.4	.4
Other checks .....	1.6	9.8
Cash <sup>1</sup> .....	2.1	4.6
Fiscal .....	-4.3	9.6
Securities and noncash .....	-8	2.3
<b>All measured services .....</b>	<b>-1</b>	<b>2.7</b>

1. Includes currency and coin services.

expect overruns of more than 1.0 percent—St. Louis (3.1 percent), Cleveland (1.4 percent), and Minneapolis (1.3 percent). At St. Louis, the overrun is due mainly to the delay of the move of the Bank's computer operations to the FRAS data centers. At Minneapolis, the overrun is due to an accelerated schedule for regionalizing savings bond operations and higher-than-anticipated expenses related to the Bank's transition to FRAS. Accelerated implementation of savings bond regionalization is the primary reason for the overrun at Cleveland. Only Dallas expects an underrun of more than 1.0 percent. Three major factors are contributing to Dallas's underrun: lower real estate taxes, the net effect of automation consolidation, and the District's cost-containment program. ■