For release on delivery
10:00 A.M., E.D.T.
July 18, 1991

Statement by

Wayne D. Angell

and

Edward W. Kelley, Jr.

Members, Board of Governors of the Federal Reserve System

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

of the

U.S. House of Representatives

July 18, 1991

Notation Voting

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It is a pleasure for Governor Kelley and me to visit with this Subcommittee today to discuss and review the Federal Reserve System's expenses and budget. Today as we look at the Federal Reserve System's budget for 1991, Governor Kelley will discuss the Board's budget and major initiatives, and my comments will focus on the Reserve Bank budgets, as well as major System initiatives.

The Board has recently made available to the public and to this Subcommittee copies of our publication, Annual Report: Budget Review, 1990-91, presenting detailed information about spending plans for 1991. The attached tables have been updated for 1990 actual experience and, therefore, some variations exist from data in that document.

While the Federal Reserve has always been concerned with controlling costs, the Monetary Control Act of 1980 has provided an additional incentive. As a matter of law, services provided to depository institutions must meet a clear market test. Specifically, all expenses (including overhead and the imputed cost of capital and taxes) for providing "priced" services are covered by charges to users. The markets in which we operate in providing these correspondent banking services are highly competitive, thereby providing a strong and direct incentive to maintain our efficiency. Given these internal and external restraints on costs, the Federal Reserve System's expenses are projected to increase by an average annual rate of 5.3 percent from 1986 through the 1991 budget. This increase includes expenses for Supervision and Regulation initiatives that account for 0.4 percentage points of the increase, Expedited Funds Availability legislation requirements (0.3 percentage points), contingency planning initiatives (0.2 percentage points), and several major initiatives for the U.S. Treasury (0.4 percentage points). I would add that it is difficult to judge the degree of discipline in an organization's budget solely on the growth rate of expenses. In the Federal Reserve we recognize the responsibilities given to us by Congress and we discharge them in a manner that reflects a high concern for quality and effectiveness as well as efficiency.

For 1991, the Federal Reserve System has budgeted operating expenses of $1.6 billion, an increase of 5.9 percent over the 1990 budget. The last year for comparison of actual expenses is 1990 over 1989. This comparison shows expenses up only 4.5 percent, reflecting a 0.8 percent underspending of the 1990 budget. Before getting to the substance of our 1991 plans, I would remind the Subcommittee of two aspects of Federal Reserve System operations that affect our budget in unusual ways. First, 40 percent of System expenses arise from the services I just mentioned that are provided to depository institutions at fees adequate to cover all costs, including some imputed costs. Since additional costs of these services are more than recovered by additional revenues, any increases in costs result in increased earnings returned to the U.S. Treasury. Second, many fiscal agency operations are provided to the Treasury Department and other agencies on a reimbursable basis. Altogether, 58 percent of our total expenses are either recovered through pricing or are reimbursable (see Table 1). On a net basis the cost to the public of the Federal Reserve System's operations is $675 million of the total $1.6 billion budgeted for 1991 (see Table 1). (Of course, this amount does not include the earnings on the System's portfolio of assets, derived directly from monetary policy and currency issuance activities, from which the System turned over $23 billion to the Treasury in 1990).

Historical Overview

It may be helpful to put the budget for 1991 in perspective by sketching the most recent 10-year history of System expenses. Between 1980 and 1990, Federal Reserve System expenses increased at an average annual rate of 5.9 percent (see Table 2 and Chart 1); System employment decreased at an average annual rate of 0.1 percent (see Table 2); and volume in measured operations increased by 26 percent over the 10-year period (see Chart 2). Unit cost did increase in some services in the early eighties as Federal Reserve Bank volumes fell following the implementation of pricing under the Monetary Control Act. However, after the transition to pricing was completed in 1983, the composite unit cost for all functions (unadjusted for inflation) has actually declined by 0.3 percent on an annual basis, even while improvements have been made in the quality of services.

For priced services, a decline in unit cost has been particularly noticeable in the electronic payment areas. ACH unit cost has decreased by 6.9 percent per year (1980-90) and Funds Transfer unit cost has decreased by 1.0 percent per year during this same time period; since 1985, the decreases per year have been 12.3 percent for ACH, and 2.9 percent for Funds. Volume growth has averaged over 9 percent per year for funds transfers and over 24 percent per year for automated clearinghouse transactions (1980-90). In our large check processing operation, on the other hand, where there has been a significant effort to improve the quality of service through increased availability and improved deposit deadlines, there has been an average increase in unit cost of 2.0 percent per year since 1983. However, in the most recent year-over-year comparison (1990 over 1989) check processing unit cost dropped 1.2 percent, chiefly because the expensive implementation of the Expedited Funds Availability legislation (EFA) was basically completed in 1989.

For our nonpriced cash operations--involving the distribution of currency and coin--unit costs have also been declining. Since 1983 the decline has averaged about 2.6 percent per year with volumes increasing 5.2 percent per year. However, in our fiscal agency operations, also nonpriced, there has been an increase in unit costs of 2.9 percent per year since 1983 reflecting new operations and services for the Treasury. In this area the Federal Reserve System has managed a number of initiatives for the Treasury to improve long term efficiency in Treasury securities and savings bonds and improve the quality of service to the public. Through 1990 the Federal Reserve has added 322 staff and spent a cumulative $65 million on these Treasury initiatives.

It is difficult to measure productivity improvements in the Supervision and Regulation area, but these activities have required significant increases in resources over the last 10 years. Between 1980 and 1990 staff for Supervision and Regulation increased by 629 and annual expenditures increased by $125.8 million. These resources have been employed to strengthen the ability of the Reserve Banks to identify and address problems in the banking organizations under their jurisdiction. Obviously, the Reserve Banks have had to deal with greatly increasing workloads in the last several years as reflected in the record number of bank failures and problem banks, as well as in the increasingly complex issues they have had to face in reviewing and processing of regulatory applications and in developing supervisory policies to deal with new and changing banking risks.

In presenting our spending plans for 1991, I would like to mention that both the Reserve Bank budgets and the Board's budget must be approved by the Board of Governors. Reserve Bank budgets are first approved by the Banks' Boards of Directors and then reviewed by the Committee on Federal Reserve Bank Activities prior to submission to the Board of Governors. Governor Kelley oversees the Board's budget and I will turn to him for that discussion.

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Introduction

I appreciate this opportunity to discuss the operating and capital budgets of the Board of Governors of the Federal Reserve System. This material was included in the

Annual Report: Budget Review 1990-1991 furnished you in February, so I will not repeat the detailed data or analysis.

The 1991 operating budget of the Board of Governors totals $110.8 million. The growth in Board expenses between 1990 and 1991, at 7.6 percent, is slightly higher than the 7.5 percent increase from 1989 to 1990. The 1991 increase results from actions to further strengthen our supervision and regulation function, to fund the higher level of salaries needed to remain competitive with changes in the marketplace, and to meet a higher level of expenses for health insurance, Medicare, and the Board's Thrift Plan.

The budget authorized 1,557 positions for the Board's operations. The number of positions increased by a net of three as requirements in the supervision and regulation function and in the system policy direction and oversight function were largely met by offsetting staff reductions in the support functions. From 1984 to 1986 our position level declined by about 80 even though we were increasing resources devoted to the supervision and regulation function. Since then the number of positions has remained substantially constant even as further increases were reallocated to the supervision and regulation function.

The foregoing figures do not include $1.8 million and 19 positions budgeted for the Office of the Inspector General which I will cover at the end of this statement.

I will now discuss the budget as it relates to the Board's four major operational areas.

Monetary and Economic Policy

This function is expected to cost $54.2 million in 1991, an increase of $3.0 million, or 5.8 percent, over 1990. Most of this change is caused by factors such as the increase in pay and benefits and the 1991 component of the automation plan supporting this function. There are no new positions in this function in spite of continuing growth in workload.

The budget provides resources to maintain the quality of economic analysis and continues major resource commitments to implement FIRREA, to help develop the National Information Center, and to support analysis of changes in the country's financial industry.

The growth of expenses in this budget area is constrained because earlier investments in distributed processing systems have produced reductions in the cost of data previously provided by the large mainframe computer and has further limited cost growth by improving the productivity of existing staff.

Supervision and Regulation

The 1991 budget funds considerable growth in this operational area. The budget of $32.8 million is $3.7 million, or 12.7 percent, greater than expenses for 1990. Eight new positions are added, primarily related to policy development and implementation, supervision of large bank holding companies and increased emphasis upon compliance with consumer protection statutes. Most of the positions are a result of underlying problems and new developments in the financial sector of the economy and ongoing work related to FIRREA.

In addition to the direct costs associated with the new positions, the budget continues to support development of the National Information Center (NIC). This comprehensive database will be the only source of consolidated structure and financial data for depository institutions; it will greatly enhance supervision and regulation in an era of evolving structure in the banking and financial sector. Development of the NIC will avoid redundant costs, improve data integrity, and lead to more timely and meaningful analysis of applications, merger requests, and other actions in a rapidly changing environment.

The office automation networks supporting this functional area will be substantially upgraded during 1991. In addition to acquiring new microcomputers, more advanced networking equipment will be installed.

Services to Financial Institutions and the Public

The budget includes $2.9 million for this operational area $107,000, or 3.9 percent more than in 1990. This area is composed almost entirely of oversight of the payments system function of the Federal Reserve System.

A major factor in the higher level of costs is the continued emphasis on reducing risk in the payments system and ensuring that it responds in an efficient and timely manner to changes in the financial system. The budget includes two new positions to develop policies and procedures to reduce risks in both national and international payment and settlement systems.

The completion in 1990 of a large software development project to manage currency orders and cash shipments produces significant cost savings and thereby limits the overall increase in the 1991 budgets for the Board and the Reserve Banks.

System Policy Direction and Oversight

System Policy Direction and Oversight includes resources for the supervision of System and Board programs. This functional area has been partially redefined and our trend data have been adjusted to reflect the new treatment of the budget for the Office of the Inspector General that began in the 1990 budget.

The $20.3 million budgeted for this function is $1.0 million or 5.4 percent more than 1990 outlays.

There are no major mission increases in this functional area. Staffing increases for the Reserve Bank examination function are continued with the addition of an EDP Auditor to help ensure that internal controls over major Reserve Banks automation systems are adequate.

The budget funds replacement of older microcomputer equipment in the Division of Reserve Bank Operations and Payment Systems and some initiatives in support of the division's local area network.

Increases by Object of Expense

The most significant increase in the 1991 budget is associated with salaries, not an unexpected outcome since 77 percent of the Board's budget is made up of personnel costs. The salary increment in this budget, $5.1 million, is significantly less than in 1990 when major actions were budgeted to fully implement the new compensation program. This program has succeeded in reducing the number of vacancies with the concomitant effect of increasing the salary budget.

A change in the Board's matching contribution for the Thrift Plan and a higher wage base subject to social security taxes are the principal factors resulting in the increase for retirement costs.

Our insurance costs rose sharply because of two factors. The most important factor is health insurance where costs are rising sharply for the third consecutive year. Insurance costs also increased as a result of the recent legislation that raised the salary base subject to the employer's matching contribution to Medicare.

Capital Outlays

The capital budget of $5,131,700 is $1.0 million more than 1990 expenditures. The budget funds requirements in the areas of automation and telecommunication, facilities improvements, and equipment replacements.

A major element of the capital budget is $1,000,000 for the replacement of obsolescent analog telephone switching equipment with a digital, private branch exchange.

Continued investment in our office automation systems is in line with our long-range automation/telecommunication plan. Productivity gains from such investments have been critical in the past in limiting requirements for additional staff to meet the Board's increasing workload.

A number of facilities improvements such as major roof repairs will require a total of $1,080,000.

Summary

The 1991 operating budget contains sufficient funding to meet the Board's major objectives in each functional area, including: expanding our oversight of the nation's financial institutions; implementation of risk-based capital standards; support for the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA); enhancing payments systems operations while reducing payments system risk; continuing investments in productivity initiatives including office automation and the records management project; continuing the development of the National Information Center to provide relevant banking structure data; and maintaining a safe and effective working environment. Three new positions were added in response to continued growth in workload as a result of problems in the financial industry, continuing implementation of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, and changes occurring in the payments system mechanism.

Budget of the Inspector General

The Office of the Inspector General was created by the Board in July 1987. In 1989 its reporting relationships, duties and responsibilities were brought into conformance with the Inspector General Act Amendments of 1988. To ensure the independence of the Office of the Inspector General, its budget is presented to the Board and reported on separately from the regular operating budget. That is, its funds are not commingled with Board operating funds.

The 1991 budget for the OIG is $1.8 million. This is $432,200 or 32.2 percent more than 1990 expenses. The increased level of resources is necessary to phase-in broader audit and investigation coverage of the Board's mission areas and to provide resources to review new and existing laws and regulations for their impact on the economy and efficiency of Board programs and operations.

The $432,200 increment is largely tied to the full-year cost of four positions added late in 1990 and increases due to the Boardwide compensation program. The travel budget projects an increase of $55,000 associated with auditing functions delegated by the Board to Reserve Banks. The Office's 1991 budget provides for no increase in positions, leaving the position count at 19.

I would be happy to address any questions you may have after Governor Angell concludes our joint testimony.

Reserve Bank Budgets

The Reserve Bank 1991 expense increase--both priced and nonpriced--was budgeted at 5.8 percent above the 1990 budget. The actual increase in expenses from 1989 to 1990 was only 4.2 percent, since actual 1990 expenses were lower than budgeted. Nine major initiatives account for almost a third of the budgeted increase in Reserve Bank expenses (see Table 4).

The Fiscal Agency initiatives are expected to increase expenses by $4.9 million with $4.2 million due to the nationwide implementation of the Regional Delivery System (RDS). This system, which provides for centralized issuance of U.S. savings bonds, is one of many services we provide the U.S. government -- directly to the Treasury Department -- as its Fiscal Agent. This project will not be fully implemented until 1993 and will require a total staff increase of 350 by that time. A staff increase of 141 is expected in 1991. Other Fiscal Agency initiatives include expenses for processing savings bonds on high speed check processing equipment (EZ Clear) and centralized processing of payroll deductions for savings bonds (Masterfile). Expenses for these Fiscal initiatives are fully reimbursable.

The Supervision and Regulation initiative result from needs in several Reserve Districts 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. The expense impact is expected to be $4.0 million.

Of the "Support" initiatives the largest -- $8.2 million -- is for Facility Improvements. Approximately $5.5 million of this increase is for increased real estate taxes on recently completed Federal Reserve buildings. The remaining increase involves efforts to provide space for efficient operations at Cleveland, St. Louis, Kansas City, and the New York Reserve Bank's East Rutherford Operations Center.

Reserve Bank operations in today's environment require more reliable and secure computer systems, more office automation, more communication networks, and more efficient high-speed sorters and counters for checks and currency. The initiatives identified in Table 4 as contingency and automation initiatives, check operational improvements, and currency initiatives all result from these requirements.

The remaining initiatives include $4.5 million for the Reserve Banks' share of the matching contribution for the thrift plan, and the two initiatives which have the impact of reducing costs through improved operational efficiency.

In addition to these major initiatives, it may be helpful to look at 1991 budgeted expenses on the basis of our four service lines (see Table 5).

Expenses for Services to Financial Institutions and the Public, which include all of the priced and some of the nonpriced services, are budgeted at $992.1 million and account for two-thirds of total expenses. Expenses are increasing by $53.2 million, or 5.7 percent over 1990. Staffing is budgeted at 9,227, an increase of 13 which is .01 percent more than the 1990 level. Expenses of priced services are budgeted at $646.6 million, an increase of 3.8 percent; these services, incidentally, are expected to generate revenues of about $780 million. Nonpriced services are budgeted at $345.5 million, an increase of 9.3 percent.

Commercial check processing is by far the largest component in this service line ($492.0 million); it accounts for 49.6 percent of these expenses and employs 5,686 people. The anticipated increase in expenses is $18.9 million or 4.0 percent, while employment is expected to decline by 35 or 0.6

percent. These levels represent anticipated stable operations with both check volume and unit costs expected to increase 1.3 percent.

Our other large operations in this service line are Currency ($166.7 million and 1,532 people), Automated Clearinghouse ($83.4 million and 370 people), and Funds Transfer ($70.0 million and 155 people). The Currency service anticipates sizable volume and staff increases in the San Francisco District but with essentially stable operations elsewhere (expenses up 6.8 percent; staff up 19). Automated Clearinghouse (expenses up 5.7 percent; staff up 5) and Funds Transfer (expenses up 9.9 percent; staff up 1) both anticipate some increased costs for automation type projects concerned with improving efficiency and security of data.

Expenses for Supervision and Regulation, budgeted at $234.2 million for 1991, are expected to increase by $22.3 million, or 10.5 percent over 1990. This service line has been the fastest growing of the service lines and now constitutes 15.6 percent of total System expenses, compared with 13.6 percent in 1985. The budgeted staff level is 2,305, an increase of 88 or 4.0 percent over 1990.

The expense increase is centered on provision for the additional employees and compensation levels for the on-going staff as well as travel, training and automation. 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 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 for Services to the U.S. Treasury and Other Government Agencies are budgeted at $167.2 million, an increase of $10.3 million or 6.6 percent over 1990. These expenses continue at about 11 percent of total expenses in 1991. Staffing levels are budgeted to increase by 96 or 5.3 percent. The major initiative driving the increases in both expenses and staff is the nationwide expansion of the Regional Delivery System (discussed earlier), which consolidates the issuance of U.S. savings bonds at one office in each District. RDS volume is expected to increase by 5.4 million bonds in 1991.

Expenses in 1991 for the conduct of Monetary and Economic Policy at the Federal Reserve Banks total $107.5 million and account for about 7 percent of the total budget. An increase of $8.5 million and 8.6 percent is anticipated in 1991. Employment budgeted at 786 reflects an increase of 14 over actual 1990, but in fact brings the staff level only to the level approved in the 1990 budget--approved staffing for 1990 was not attainable due to attrition and the lag in finding qualified replacements. In addition to providing for the staff additions, the expense increase represents salary administration actions and increased equipment and data-processing costs associated with automation initiatives.

Reserve Bank expenses on an object of expense basis also might be useful to the Subcommittee and are shown in Table 7.

Operating expenses for Personnel comprise officer and employee salaries, 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 by 8.0 percent in 1991.

Salaries and other personnel expenses account for about 52 percent of 1991 budgeted expenses and are expected to be $49.3 million or 6.7 percent above 1990 expenses. Salaries alone are budgeted to increase by $52.6 million or 7.3 percent and will be partially offset by a decline in other personnel expenses of $3.2 million or 25.2 percent. The decrease in other personnel expenses results from a declining use of personnel agencies. 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 staffing level increases, promotions, reclassifications, and structure adjustments. These increases are partially offset by position vacancies and reduced overtime.

Expenses for retirement and other benefits, which account for 12.3 percent of Reserve Bank budgets, are anticipated to increase by $22.1 million, or 13.5 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 by 4.5 percent in 1991.

Equipment expenses are expected to increase by 7.2 percent and to account for 11.6 percent of total expenses in

1991. Most of the increase is in depreciation expenses resulting from acquisitions to expand data-processing and data-communications capabilities because of increased workloads.

Shipping costs (primarily for check operations) account for 5.8 percent of the 1991 budget and are projected to increase by 4.1 percent in 1991. The increase is primarily the result of a substantial increase in postal rates in early 1991, an increase for the interdistrict transportation system (ITS), and increases from rebidding local transportation contracts.

Building expenses, which account for 9.1 percent of total expenses, are expected to increase by 10.4 percent in 1991 because of higher real estate taxes in several Districts and the full year effect of recently completed capital projects.

Table 8 depicts the plans of the Reserve Banks for Capital spending in 1991. By their nature capital outlays vary greatly from year to year. Outlays for buildings and for data processing and data communications equipment continue to dominate Reserve Bank capital budgets.

Special Budget Emphasis

The Board of Governors has continued approval in 1991 of two research and development projects intended to provide long-range benefits to the Federal Reserve and the banking industry. Because the spending on such projects is relatively high and short-term, the Federal Reserve accounts for them separately from its operating expenses, although they are included in the total System budget. The budget for these "Special Projects" in 1991 is $7.6 million compared to $5.2 million in 1990 and $7.5 million in 1989.

Since 1985, the Federal Reserve has been working on a project -- "Digital Imaging of Checks" -- that could improve the efficiency of the check collection system through transition from paper delivery to electronic delivery. The System has been testing digital image technologies to produce high quality images of check documents in a sustained high-speed check processing environment. The primary applications chosen for the testing were truncation of government checks and the processing of return items. Both of these check processes provide rigorous tests for image technology in that they require the storage of large amounts of data and require a high level of quality in the retrieved image.

The focus of this project during 1991 will be on the systems development of a high-speed government check archival system, of personal computer systems for potential applications such as return item processing, and of low speed systems that will be efficient in very low volume applications in the near term. The 1991 budget for this project is $3.7 million.

The second Special Project is the "Development of Currency Authentication Systems". Our effort is to improve capabilities for detection of counterfeit notes in the processing of incoming currency deposits, and thereby promote the integrity of United States currency in circulation. The 1991 budget for this project is $3.9 million.

Before concluding my comments I would like to add that the Federal Reserve knows a rigorous budget process is only one part of financial management. We are equally concerned about other areas of financial integrity. The structure of the Federal Reserve System provides for appropriate segregation of responsibilities; strong accounting control over assets, liabilities, revenues and expenses; and an organizational structure that establishes responsibilities for audit and oversight of the objectives and goals of the Federal Reserve System.

This was the subject of our report to the Subcommittee earlier this year in which we described and documented procedures and systems employed in supervising and controlling the Federal Reserve Banks. In brief summary, it is the policy of the Federal Reserve that the Board and each Reserve Bank maintain a system of internal controls which is designed to ensure that objectives of each are achieved and that they each operate in compliance with all prescribed rules, regulations, and policies. The management of each is responsible for maintaining adequate internal financial, custody, and data security controls over all aspects of their respective operations.

To ensure that these controls are operating in an effective manner at the Federal Reserve Banks, we have put the following procedures in place: (1) an internal audit function at each Reserve Bank is responsible for assessing practices and procedures for soundness and conformity with regulations in accordance with professional auditing standards; (2) the Board of Governors' examiners conduct financial, operational, and procedural reviews at each of the Banks; (3) a CPA firm reviews the procedures and practices of the Board's examination program; and (4) the Board's specialists review the effectiveness of each Reserve Bank's internal audit function.

We believe that these measures, offer excellent protection against financial impropriety.

Governor Kelley and I thank you for this opportunity to address the Subcommittee on the Federal Reserve System budget. The existing budget processes are working well in controlling costs while at the same time encouraging quality improvements. We welcome your comments and would be pleased to address any questions you may have on our budget.

Table 1

Operating Expense of the Federal Reserve System, Net of Receipts 1989-91
Millions of dollars, except as noted

Item	1989	1990	1991 Budget	Change 1989-90 Amount	%	Change 1990-91 Amount	%
Total System operating expenses	1,446	1,511	1,614	65	4.5	103	6.8
Less:							
Revenue from priced services	719	746	779	27	3.8	33	4.4
Other income	19	19	18	0	0	-1	-5.3
Reimbursements	127	140	141	13	10.2	1	0.7
EQUALS							
Net System Operating Expense	581	606	675	25	4.3	69	11.4

Table 2

Federal Reserve System Expense and Employment, 1980-91 Budget 1/
Millions of dollars

	Expenses		Personnel	
	Amount	Percent Change	Amount	Percent Change
1980	852	14.1	25,198	2.6
1981	948	11.3	25,480	1.1
1982	1,041	9.8	24,755	-2.8
1983	1,100	5.7	24,466	-1.2
1984	1,145	4.0	24,257	-0.9
1985	1,199	4.8	24,609	1.5
1986	1,245	3.8	24,721	0.5
1987	1,278	2.7	24,483	-1.0
1988	1,353	5.9	24,832	1.4
1989	1,446	6.9	25,140	1.2
1990	1,511	4.5	24,990	-0.6
Growth Rate 1980-90		5.9		-0.1
1991 Budget	1,614	6.8	25,398	1.6

1/ Includes expenses and personnel of both the Reserve Banks and the Board of Governors.

Table 3

Fedreal Reserve Bank Employment by Service Line, 1980-91 Budget

Year	Monetary and Economic Policy	Services to the U.S. Treasury and Gov't Agencies	Services to Financial Institutions	Supervision and Regulation	Support	Overhead	Total	Percen Change
1980	618	1,946	9,614	1,589	4,238	5,680	23,682	2.5%
1981	717	1,881	9,480	1,733	4,434	5,745	23,989	1.3%
1982	743	1,851	8,566	1,796	4,599	5,676	23,230	-3.2%
1983	804	1,838	8,424	1,862	4,367	5,589	22,883	-1.5%
1984	826	1,798	8,395	1,885	4,340	5,424	22,669	-0.9%
1985	816	1,781	8,754	1,912	4,398	5,323	22,984	1.4%
1986	791	1,819	8,799	2,087	4,469	5,274	23,239	1.1%
1987	775	1,836	8,775	2,147	4,452	5,024	23,010	-1.0%
1988	766	1,818	9,032	2,208	4,562	4,951	23,337	1.4%
1989	782	1,771	9,422	2,197	4,551	4,947	23,670	1.4%
1990	773	1,816	9,214	2,217	4,533	4,940	23,492	-0.8%
1991 Budget	786	1,912	9,227	2,305	4,646	4,986	23,861	1.6%
Long Term Growth Rate								
1980-90	2.3%	-0.7%	-0.4%	3.4%	0.7%	-1.4%	-0.1%	
Recent Year								
1989-90	-1.2%	2.5%	-2.2%	0.9%	-0.4%	-0.1%	-0.8%	
Budget Year								
1990-91	1.7%	5.3%	0.1%	4.0%	2.5%	0.9%	1.6%	

Table 4

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
Total	30.0	2.1
MEMO		
Increase in total operating expenses, 1990 to 1991 budget..........	94.3	6.7

Table 5

Operating Expense of the Federal Reserve Banks, by Operational Area 1989-91
Million of dollars, except as noted

Service Line 1/	1989	1990	1991 Budget	Change 1989-90 Amount	%	Change 1990-91 Amount	%
Monetary and Economic Policy..............	93.6	99.0	107.5	5.4	5.8	8.5	8.6
Supervision and Regulation..........	195.1	211.9	234.2	16.8	8.6	22.3	10.5
Service to Financial Institutions and the Public..........	916.3	938.9	992.1	22.5	2.5	53.2	5.7
Services to the U.S. Treasury and Other Govenment Agencies..	145.5	156.9	167.2	11.4	7.8	10.3	6.6
TOTAL	1,350.5	1,406.7	1,501.0	56.2	4.2	94.3	6.7

1/ Includes the cost of support and overheas services.

Table 6

Employment at the Federal Reserve Banks, by Activity, 1989-91
Average number of personnel, except as noted

Service Line	1989	1990	1991 Budget	Change 1989-90 Amount	%	Change 1990-91 Amount	%
Monetary and Economic Policy..............	782	773	786	-10	-1.3	14	1.8
Supervision and Regulation..........	2,197	2,217	2,305	19	0.9	88	4.0
Service to Financial Institutions and the Public..........	9,422	9,214	9,227	-208	-2.2	13	0.1
Services to the U.S. Treasury and Other Govenment Agencies..	1,771	1,816	1,912	45	2.6	96	5.3
Support and overhead:							
Support..............	4,551	4,553	4,646	-18	-0.4	113	2.5
Overhead.............	4,947	4,940	4,986	21	0.4	46	0.9
TOTAL	23,670	23,492	23,861	-178	-0.8	369	1.6

Table 7

Operating Expenses of the Federal Reserve Banks, by Object, 1989-91
Millions of dollars, except as noted

Object	1989	1990	1991 Budget	Change 1989-90 Amount	Change 1989-90 %	Change 1990-91 Amount	Change 1990-91 %
Personnel							
Officers' salaries	68.1	74.0	79.3	5.9	8.6	5.3	7.2
Employees' salaries	618.1	647.3	694.6	29.2	4.7	47.3	7.3
Other personnel	14.9	12.9	9.6	-2.1	-13.9	-3.2	-25.2
Retirement and benefits	150.2	163.5	185.6	13.3	8.9	22.1	13.5
Total Personnel	851.3	897.6	969.1	46.3	8.0	71.5	8.0
Nonpersonnel							
Forms and supplies	54.4	53.4	55.7	-1.0	-1.8	2.3	4.3
Equipment	158.1	162.8	174.5	4.7	3.0	11.7	7.2
Software 1/	--	32.2	31.5	--	--	-0.7	-2.2
Shipping	82.2	83.5	86.9	1.3	1.6	3.4	4.1
Travel	27.2	28.9	30.5	1.7	6.3	1.6	5.5
Buildings:							
Insurance	0.7	0.8	0.8	0.1	21.3	0	0
Taxes on real estate	23.3	22.4	28.5	-0.9	-3.7	6.1	27.2
Depreciation	30.7	33.5	37.1	2.8	9.2	3.5	10.6
Utilities	24.8	25.5	27.4	0.7	2.6	2.0	7.7
Rent	21.2	22.0	23.9	0.8	3.7	1.8	8.3
Other building	19.7	19.2	18.6	-0.5	-2.7	-0.5	-2.9
Total building	120.5	123.5	136.3	3.0	2.5	12.8	10.4
All Other	91.4	60.0	51.6	-31.4	-34.4	-8.4	-14.0
Recoveries	-34.6	-35.2	-35.3	-0.6	1.7	-0.1	0.3
Total Nonpersonnel	499.2	509.0	531.8	9.8	2.0	22.8	4.5
Total	1,350.5	1,406.7	1,501.0	56.2	4.2	94.3	6.7

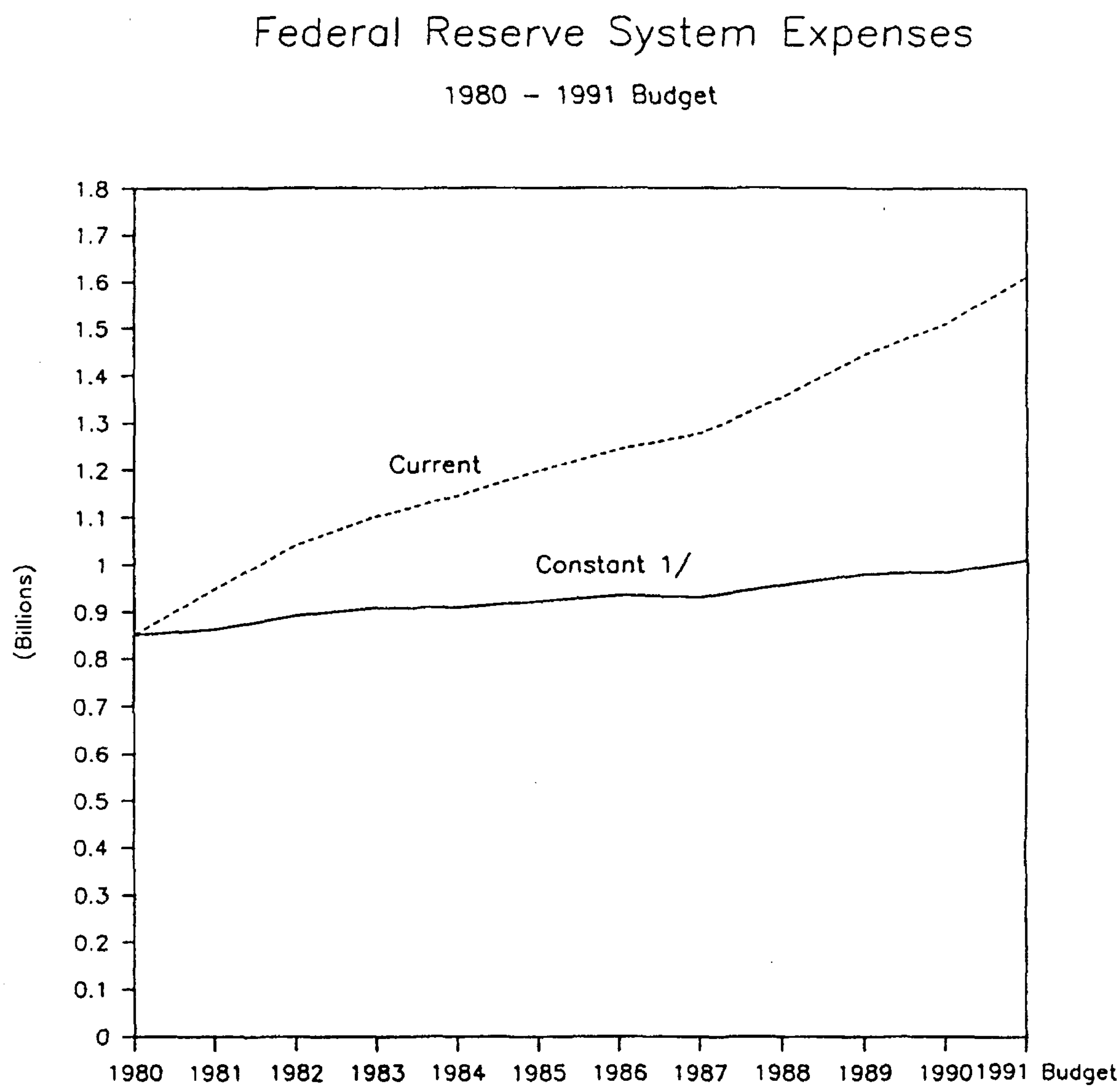
1/ Software was made a separate item in 1990; previously costs were included in All Other, $29.0 million in 1989.

Table 8

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1989-91
Million of dollars, except as noted

Capital class	1989	1990	1991 Budget	Change 1989-90 Amount	%	Change 1990-91 Amount	%
Data processisng and data communications equipment	62.2	94.7	77.0	32.5	52.3	-17.7	-18.7
Furniture and other equipment	25.6	26.9	38.1	1.3	5.1	11.2	41.6
Land and other real estate	25.3	35.1	42.7	9.8	38.7	7.6	21.7
Buildings	36.6	76.4	139.5	39.8	108.7	63.1	82.6
Buildidng machinery and equipment	8.5	8.9	27.6	0.4	4.7	18.7	210.1
Leasehold improvements	1.7	1.0	3.4	-0.7	-41.2	2.4	240.0
Total	159.8	243.0	328.4	83.2	52.1	85.4	35.1

Chart 1



1/ Deflated by GNP Deflator (1980 = 100)

Chart 2

Trends in Volume, Unit Cost, and Employment

For Volume Measured Functions, 1980–90

(1980 = 100)