Minutes for October 12, 1962

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Gov. Mitchell
Minutes of the Board of Governors of the Federal Reserve System on Friday, October 12, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
        Mr. Mills
        Mr. Shepardson
        Mr. King

        Mr. Sherman, Secretary
        Mr. Kenyon, Assistant Secretary
        Mr. Young, Adviser to the Board and Director, Division of International Finance
        Mr. Fauver, Assistant to the Board
        Mr. Noyes, Director, Division of Research and Statistics
        Mr. Holland, Adviser, Division of Research and Statistics
        Mr. Koch, Adviser, Division of Research and Statistics
        Mr. Brill, Associate Adviser, Division of Research and Statistics
        Mr. Sammons, Adviser, Division of International Finance
        Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
        Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
        Mr. Bernard, Economist, Division of Research and Statistics

Money market review. Mr. Bernard discussed developments in the Government securities market, in which connection he distributed tables and charts on the publicly-held marketable Federal debt, dealer awards of one-year Treasury bills, and the Treasury's operating balance. Mr. Koch then commented on banking developments.
All of the members of the staff except Messrs. Sherman, Kenyon, Young, Fauver, and Sammons then withdrew from the meeting and the following entered the room:

- Mr. Hackley, General Counsel
- Mr. Solomon, Director, Division of Examinations
- Mr. Johnson, Director, Division of Personnel Administration
- Mr. Leavitt, Assistant Director, Division of Examinations
- Mr. Sprecher, Assistant Director, Division of Personnel Administration
- Mr. Hill, Attorney, Legal Division
- Mr. Wood, Personnel Assistant, Division of Personnel Administration

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and Dallas on October 11, 1962, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Application of Union Trust Company (Items 1 and 2). On October 9, 1962, the Board approved the application of Union Trust Company of Maryland, Baltimore, Maryland, for permission to merge with The Liberty Bank, Easton, Maryland. There had now been distributed drafts of an order, statement, and revised statement reflecting that decision.

After discussion, during which agreement was expressed with certain further changes in the proposed statement, the issuance of the order and statement was authorized with the understanding that
the changes in the statement would be made. Copies of the order and
statement, as issued, are attached as Items 1 and 2, respectively.

Mr. Hill then withdrew from the meeting.

Loan on gold to Guatemala (Item No. 3). Mr. Sammons reported
that Banco de Guatemala had requested a $10 million gold loan on the
usual terms and conditions, and that the staff of the Federal Reserve
Bank of New York had recommended favorably to the Board of Directors.
Mr. Sammons indicated that the loan request appeared attributable to
seasonal circumstances affecting the Guatemalan situation and that
the Division of International Finance saw no reason to object to the
making of the loan.

After discussion, it was agreed unanimously that in response
to telegraphic advice that the directors of the New York Reserve
Bank had approved the loan, the Reserve Bank should be advised of
approval by the Board of Governors. It was understood, also, that
the usual background documentation pertinent to the loan request
would be distributed to the members of the Board for their information.

Secretary's Note: The New York Bank
advised by telegram that the directors
of the Bank had approved the loan,
subject to the approval of the Board
of Governors. A copy of the telegram
sent in reply to the New York Bank,
pursuant to the action taken today by
the Board of Governors, is attached
as Item No. 3.

Mr. Sammons then withdrew from the meeting.
Report on competitive factors (Burlington-Montpelier, Vermont).

There had been distributed to the Board a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The First National Bank of Montpelier, Montpelier, Vermont, into Chittenden Trust Company, Burlington, Vermont.

In discussion, Mr. Leavitt stated reasons why the Division of Examinations, upon further consideration, would recommend changing the conclusion of the report so that it would read as follows:

This merger would eliminate some competition as both Chittenden Trust Company and The First National Bank have an office in Montpelier.

There being agreement with this suggestion, the report was approved unanimously for transmittal to the Corporation subject to this change being made.

Messrs. Fauver, Hackley, Solomon, and Leavitt then withdrew from the meeting.

Revised salary schedule (Item No. 4). On October 11, 1962, the President signed into law the Postal Service and Federal Employees Salary Act of 1962. One part of this Act adjusted the general salary schedule of Federal employees in two phases, the first to become effective October 14, 1962, and the second to become effective January 5, 1964. In this connection, there had been distributed to the Board a memorandum from the Division of Personnel Administration...
dated October 11, 1962, making certain recommendations with respect to the basis of compensation of Board employees. A copy is attached as Item No. 4.

Following explanatory comments by Mr. Johnson, the recommendations contained in the memorandum from the Division of Personnel Administration were approved unanimously.

All members of the staff then withdrew from the meeting and the Board went into executive session.

Salary adjustments for Board officer staff. Following the meeting, Governor Shepardson informed the Secretary that during the executive session the Board approved, effective October 14, 1962, the payment of salaries to officers of the Board at the annual rates shown opposite their names in the following list:

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Annual salary</th>
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<td><strong>Board Members' Offices</strong></td>
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<td>Ralph A. Young, Adviser to the Board</td>
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<td>Elizabeth L. Carmichael, Assistant Secretary</td>
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<td>Howard H. Hackley, General Counsel</td>
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<td>David B. Hexter, Assistant General Counsel</td>
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<td>G. Howland Chase, Assistant General Counsel</td>
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10/12/62

Name and title

Legal Division

Thomas J. O'Connell, Assistant General Counsel
Jerome W. Shay, Assistant General Counsel
Wilson L. Hooff, Assistant General Counsel

Division of Research and Statistics

Guy E. Noyes, Director
Frank R. Garfield, Adviser
Robert C. Holland, Adviser
Albert R. Koch, Adviser
Kenneth B. Williams, Adviser
Daniel H. Brill, Associate Adviser
Lewis N. Dembitz, Associate Adviser

Division of International Finance

J. Herbert Furth, Adviser
A. B. Hersey, Adviser
Robert L. Sammons, Adviser
Samuel I. Katz, Associate Adviser
Ralph C. Wood, Associate Adviser

Division of Bank Operations

John R. Farrell, Director
Gerald M. Conkling, Assistant Director
M. B. Daniels, Assistant Director
John N. Kiley, Jr., Assistant Director

Division of Examinations

Frederic Solomon, Director
Robert C. Masters, Associate Director
Glenn M. Goodman, Assistant Director
Henry Benner, Assistant Director
James C. Smith, Assistant Director
Brenton C. Leavitt, Assistant Director
Andrew N. Thompson, Assistant Director
Lloyd M. Schaeffer, Chief Federal Reserve Examiner

Annual salary

$19,000
18,000
15,500
20,000
19,000
19,000
19,500
18,500
19,000
18,000
17,000
19,000
18,000
17,000
19,500
18,000
17,500
16,500
16,500
16,500
The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved the following actions relating to the Board's staff:

Appointment

George J. Viksnins, on a temporary contractual basis in the Division of Research and Statistics for approximately 10 business days, beginning October 15, 1962, with compensation at the rate of $25 per day for each day worked.

Salary increase

Charles J. Partee, Chief, Capital Markets Section, Division of Research and Statistics, from $16,000 to $17,445 per annum, effective October 14, 1962.
UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
UNION TRUST COMPANY OF MARYLAND

for approval of merger with
The Liberty Bank

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Union Trust Company of Maryland, Baltimore, Maryland, a member bank of the Federal Reserve System, for prior approval by the Board of the merger of that bank and The Liberty Bank, Easton, Maryland, under the charter and title of the former. As an incident to the merger, the three offices of The Liberty Bank would be operated as branches of the Union Trust Company of Maryland. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed merger,
IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 12th day of October, 1962.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Mills, and Shepardson.

Absent and not voting: Governors Robertson, King, and Mitchell.

(Signed) Merritt Sherman

Merritt Sherman, Secretary.

(SEAL)
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY UNION TRUST COMPANY OF MARYLAND
FOR APPROVAL OF MERGER WITH THE LIBERTY BANK

STATEMENT

Union Trust Company of Maryland, Baltimore, Maryland ("Union Trust"), with deposits of $286.6 million as of December 30, 1961 (adjusted for two mergers heretofore consummated in 1962), has applied, pursuant to the Bank Merger Act (12 U.S.C. 1828(c)), for prior approval by the Board of the merger of that bank and The Liberty Bank, Easton, Maryland ("Liberty Bank"), with deposits of $7 million as of the same date. The banks would merge under the charter and title of Union Trust, which is a State-chartered member bank of the Federal Reserve System, and the three offices of Liberty Bank would become branches of Union Trust, increasing the number of offices of Union Trust from 35 to 38.

Under the Act, the Board is required to consider (1) the financial history and condition of each of the banks involved, (2) the adequacy of its capital structure, (3) its earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the communities to be served, and (7) the effect of the transaction on competition
(including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

**Banking factors.** - The financial history of Union Trust is satisfactory, its asset condition is sound, and its capital structure is adequate. Its management is good and its earnings prospects are favorable. The financial history of Liberty Bank is also satisfactory; however, its financial condition is only fair, its earnings have been below average, and its capital structure is less than desirable. Liberty Bank has a serious management succession problem which this merger would correct. This transaction would have the effect of adding management strength and of establishing a basis for improved earnings that does not presently exist on the part of the offices of Liberty Bank. No indication exists that there is or would be any inconsistency with the purposes of 12 U.S.C., Ch. 16.

**Convenience and needs of the communities.** - Thirty-three of the offices of Union Trust are in Baltimore or within twenty miles of the city limits (city population 939,000 and metropolitan area population 1,785,000). The other two are in Salisbury (city population about 16,300 and trade area population of 225,000) on the Eastern Shore of Maryland. The main office of Liberty Bank is in Easton (city population about 6,300), which is 60 miles from Baltimore and 45 miles from Salisbury. There is a branch of Liberty Bank in Trappe, 8 miles south of Easton, and one in Hillsboro, 15 miles northeast of Easton.
The merger would affect principally those people living in the service area of Liberty Bank. The Hillsboro and Trappe offices of Liberty Bank would offer a number of new banking services and the Easton office would become another source of certain services. For example, larger loans, consumer loans, and trust services would be available at all three.

**Competition.** - The nearest offices of the two banks involved in this proposal are those at Trappe and Salisbury, 38 miles apart. There are several other banking offices in the area between these offices of Liberty Bank and Union Trust. This merger would have little, if any, effect upon them. The service areas of Union Trust and Liberty Bank do not overlap, and each draws only a negligible amount of business from the area of the other. There is virtually no competition between them.

The small banks in the areas surrounding Easton, Trappe, and Hillsboro serve principally their own communities and would probably not be perceptibly affected by this merger. Upon consummation of this merger there would be in Easton one branch of Union Trust (third largest bank in Maryland), two branches of Maryland National Bank (the largest bank in the State), and one unit bank, The Talbot Bank of Easton. The proposed transaction would probably have no deleterious effect upon competition in Easton.

Consummation of this proposal would cause Union Trust to hold only .2 per cent more of the total commercial bank deposits of Maryland, and its position as third largest bank in the State would not change.
Summary and conclusion. - There is little, if any, competition between Liberty Bank and Union Trust which would be eliminated by this merger, and the over-all effect upon competition for other banks in the area should not be appreciably adverse. This merger would not materially increase Union Trust's percentage of total bank deposits in Maryland, and its relative size among the banks in the State would not change. Consummation of the proposal would not only provide the people within the service area of Liberty Bank with broader banking services but would also solve the management succession and capital problems of Liberty Bank.

Accordingly, the Board finds the proposed merger to be in the public interest.

October 12, 1962.
October 15, 1962.

COOMBS - NEW YORK

Your wire of October 11. Board approves granting a three-month loan on gold up to a total of $10 million by Federal Reserve Bank of New York to the Banco de Guatemala on the following terms and conditions:

(a) To be made up to 98 per cent of the value of gold bars set aside in vaults of Federal Reserve Bank of New York under pledge to that Bank;

(b) To be made in units of $1 million at any time on or before November 16, 1962;

(c) To mature in three months with option to repay at any time before maturity in units of $1 million;

(d) To bear interest at the discount rate of New York Reserve Bank in effect on the date on which such loan or loans are made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(signed) SHERMAN
Office Correspondence

To: Board of Governors

From: Division of Personnel Administration

Date: October 11, 1962

Subject: General Adjustment to the Board's Regular Salary Schedule.

BACKGROUND

Today the President signed into law the "Postal Service and Federal Employees Salary Act of 1962." Title II, Part II, of this Act adjusts the general salary schedule in two phases, the first to become effective on October 14, 1962 and the second on January 5, 1964.

In addition to adjusting the annual rates of compensation within the general salary schedule, this Act (1) abolishes the longevity steps and replaces them with a like number of additional progress steps, (2) changes the time requirement for progress step increases in all grades to the completion of 52 calendar weeks of service in steps 1, 2, and 3, 104 calendar weeks of service in steps 4, 5, and 6, and 156 calendar weeks of service in steps 7, 8, and 9, and (3) provides for the equivalent of a two step, within grade increase upon the reclassification of an employee's position or his transfer and promotion to a higher graded one.

In keeping with the Board's policy of maintaining a salary structure for its employees comparable to that of other agencies of the Federal Government, it is recommended that the Board approve the following:

RECOMMENDATION

1. Revise the Board's Regular Salary Schedule in accordance with the attached tables (Attachments 1 and 2) which correspond to the basic compensation rates established by the Postal Service and Federal Employees Salary Act of 1962; and, further, adjust accordingly the basic compensation of those employees paid under this schedule. The first phase of the adjustment would become effective October 14, 1962; the second would become effective on the first day of the first pay period on or after January 1, 1964. Attachment 3 shows the salary adjustment cost to the Board, if this recommendation is approved.

2. Application and Implementation of Revised Salary Structure. With the approval of the Board Member in charge of matters of a managerial nature, the Division of Personnel Administration shall be responsible for making adjustments in (1) the per diem and hourly wage rates of the WAES (when actually employed) employees, (2) pending employee appointments, etc.
3. Administration and Procedures. The Office of the Controller and the Division of Personnel Administration will use Government regulations and interpretations with regard to matters coming under the Classified Act Amendments of 1962 of the Postal Service and Federal Employees Salary Act of 1962 as guides in deciding questions of administration and procedure.

4. Exceptions. Not included in this recommendation are Board employees paid under the Metropolitan D.C. Prevailing Rate Wage Schedule (mechanics, gardeners, painters) and the Interdepartmental Lithographic Wage Board (printing) Pay Schedule. These employees have been receiving periodic salary adjustments as a result of area wage surveys. On the basis of advanced information this Division has received, these two salary schedules will, in all probability, be recommended for further adjustments before the end of the year.

Also excepted from coverage of the recommendations made in this memorandum are the substitute nurses, whose salaries are based on the prevailing rate for Registered Nurses in the District of Columbia.

No recommendation is made in this memorandum with regard to the annual salaries of the Board's official staff. It is assumed that any determination on this matter will be made by the Board, as in the past.

FEDERAL SALARY REFORM

Title I, part II of the basic Act (Postal Service and Federal Employees Salary Act of 1962) is cited as the "Federal Salary Reform Act of 1962." This provides for an annual review of salary rates paid to Federal employees by the President and Congress, a requirement much desired by Government personnel people.

Also there is provided to the President the authority to establish higher minimum rates of pay for an occupation whose salary rates in private industry are found to be substantially above the Federal salary rates as to significantly handicap the Government in recruiting and retaining well-qualified persons in these positions. To a certain extent this approach has been used by the Board for some time, as it was not restricted to hiring at minimum rates.

The Federal Salary Reform Act further provides for the recognition of high quality performance above that ordinarily found in the type of position concerned by authorizing heads of departments or agencies to grant step-increases in addition to the 1, 2, and 3 year periodic step
To: Board of Governors

increases. The Act limits such increases to no more than one within any fifty-two week period, with the individual agency and department heads being responsible for establishing their own criteria and selection processes for this program. As can be seen, this program is quite similar to the Board's Merit Increase Program.

This Act also provides for adequate salary differentials for supervisors of wage board employees. This Division has reviewed the limited number of such cases within the Board and has found all such positions to be adequately compensated under the intent of the above provision.

If agreeable to the Board, the Division of Personnel Administration will review salary administration changes effected elsewhere in Government as a result of the Federal Salary Reform Act. Any desirable additions to, or revisions in, the Board's salary administration program will be promptly adopted, subject to the approval of the Board Member in charge of matters of a managerial nature.

Attachments
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PROPOSED REGULAR SALARY SCHEDULE

OCTOBER 14, 1962

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* A step increase from 6 to 7 is equal to $110. Steps 7 to 8, 8 to 9, and 9 to 10 are equal to $125 apiece.
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<td>9610</td>
<td>9930</td>
</tr>
<tr>
<td>FR-11</td>
<td>280</td>
<td>8410</td>
<td>8730</td>
<td>9050</td>
<td>9370</td>
<td>9690</td>
<td>10010</td>
<td>10330</td>
<td>10650</td>
</tr>
<tr>
<td>FR-12</td>
<td>330</td>
<td>9980</td>
<td>10310</td>
<td>10640</td>
<td>10970</td>
<td>11300</td>
<td>11630</td>
<td>11960</td>
<td>12290</td>
</tr>
<tr>
<td>FR-13</td>
<td>385</td>
<td>11725</td>
<td>12155</td>
<td>12585</td>
<td>12915</td>
<td>13245</td>
<td>13675</td>
<td>14105</td>
<td>14435</td>
</tr>
<tr>
<td>FR-14</td>
<td>450</td>
<td>13615</td>
<td>14045</td>
<td>14475</td>
<td>14905</td>
<td>15335</td>
<td>15765</td>
<td>16195</td>
<td>16625</td>
</tr>
<tr>
<td>FR-15</td>
<td>515</td>
<td>15665</td>
<td>16105</td>
<td>16545</td>
<td>17055</td>
<td>17495</td>
<td>17935</td>
<td>18375</td>
<td>18815</td>
</tr>
</tbody>
</table>

* A step increase from 6 to 7 is equal to $120.  Steps 7 to 8, 8 to 9, and 9 to 10 are equal to $125 apiece.
ATTACHMENT 3

DISTRIBUTION OF RECOMMENDED ADJUSTMENT TO
THE BOARD’S REGULAR SALARY SCHEDULE BY GRADE

<table>
<thead>
<tr>
<th>Grade</th>
<th>Number of Employees</th>
<th>Annual Salary</th>
<th>Present Total Cost</th>
<th>Approximate Salary Adjustment Cost</th>
<th>Estimated Salary Adjustment Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>47</td>
<td>$166,723</td>
<td>$7,800</td>
<td>4.7%</td>
<td>$2,834</td>
</tr>
<tr>
<td>2</td>
<td>28</td>
<td>$112,805</td>
<td>$5,115</td>
<td>4.6%</td>
<td>$1,805</td>
</tr>
<tr>
<td>3</td>
<td>25</td>
<td>$98,368</td>
<td>$4,277</td>
<td>4.3%</td>
<td>$1,279</td>
</tr>
<tr>
<td>4</td>
<td>60</td>
<td>$258,885</td>
<td>$10,395</td>
<td>4.0%</td>
<td>$5,954</td>
</tr>
<tr>
<td>5</td>
<td>63</td>
<td>$319,275</td>
<td>$13,440</td>
<td>4.2%</td>
<td>$7,982</td>
</tr>
<tr>
<td>6</td>
<td>62</td>
<td>$346,495</td>
<td>$16,155</td>
<td>4.6%</td>
<td>$13,860</td>
</tr>
<tr>
<td>7</td>
<td>42</td>
<td>$261,210</td>
<td>$14,020</td>
<td>5.4%</td>
<td>$12,799</td>
</tr>
<tr>
<td>8</td>
<td>5</td>
<td>$33,880</td>
<td>$2,310</td>
<td>6.8%</td>
<td>$1,660</td>
</tr>
<tr>
<td>9</td>
<td>35</td>
<td>$238,673</td>
<td>$15,240</td>
<td>6.4%</td>
<td>$12,888</td>
</tr>
<tr>
<td>10</td>
<td>1</td>
<td>$7,985</td>
<td>$1,020</td>
<td>12.8%</td>
<td>$1,63</td>
</tr>
<tr>
<td>11</td>
<td>51</td>
<td>$413,110</td>
<td>$27,215</td>
<td>6.6%</td>
<td>$20,212</td>
</tr>
<tr>
<td>12</td>
<td>31</td>
<td>$293,205</td>
<td>$21,625</td>
<td>7.4%</td>
<td>$16,119</td>
</tr>
<tr>
<td>13</td>
<td>27</td>
<td>$293,615</td>
<td>$19,815</td>
<td>6.7%</td>
<td>$16,150</td>
</tr>
<tr>
<td>14</td>
<td>17</td>
<td>$220,830</td>
<td>$20,910</td>
<td>9.5%</td>
<td>$11,133</td>
</tr>
<tr>
<td>15</td>
<td>19</td>
<td>$275,365</td>
<td>$25,370</td>
<td>9.2%</td>
<td>$22,580</td>
</tr>
<tr>
<td>Total</td>
<td>513</td>
<td>$3,340,454</td>
<td>$201,737</td>
<td>6.1%</td>
<td>$151,048</td>
</tr>
</tbody>
</table>

1st Phase % 2nd Phase %