

# *Annual Report: Budget Review*



*Board of Governors of the Federal Reserve System*

*1987-88*

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## *Introduction*

This report describes the budgeted expenses of the Federal Reserve System for 1988 and compares them with expenses for 1986 and 1987. It also contains a special analysis of fiscal services provided to the U.S. Treasury and other government agencies.

The Federal Reserve System consists of the Board of Governors in Washington, D.C., the 12 Federal Reserve Banks with their 25 Branches, the Federal Open Market Committee, and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council.

The System was created by the Federal Reserve Act, passed by the Congress in 1913 to establish a safer and more flexible monetary and banking system. After the inception of the Federal Reserve System, it became clear that these original purposes were part of broader national economic and financial objectives. Stability and growth of the economy, stability in the purchasing power of the dollar, and reasonable balance in transactions with foreign countries have come to be recognized as primary objectives of governmental economic policy. Over the years, such objectives have been articulated by the Congress in legislation giving the Federal Reserve more authority and responsibility.

As the nation's central bank, the Federal Reserve, through its ability to influence financial conditions, attempts to ensure growth of the economy consistent with price stability. As the nation's lender of last resort, the Federal Reserve also is responsible for averting national liquidity crises.

Because a sound financial structure is essential to an effective monetary policy and a growing and prosperous economy, the Congress has entrusted the Federal Reserve with a variety of bank supervisory and regulatory functions. Among other things, the Federal Reserve administers the laws that regulate all bank holding companies; it supervises state-chartered banks that are members of the Federal Reserve System; it regulates the foreign activities of U.S. banks and the U.S. activities of foreign banks; and it establishes rules to ensure that consumers are informed adequately and treated fairly in credit transactions.

The Federal Reserve System also plays a major role in the nation's payments mechanism. Federal Reserve Banks distribute currency and coin, process 35 percent of all domestic checks, and provide both wire and automated clearinghouse transfers of funds and securities amounting to about \$625 billion daily. In addition, the Federal Reserve System serves as the fiscal agent for the U.S. Treasury and provides a variety of financial services for the Treasury and other government agencies.

To carry out these responsibilities, the Federal Reserve System spent an estimated \$1,281 million in 1987 and has budgeted expenses for 1988 of \$1,336 million. These are the gross expenses for the Board of Governors and the Federal Reserve Banks and their Branches. Offsetting them in 1987 were an estimated \$645 million in revenue from priced services, \$106 million in claims for reimbursement, and \$10 million in other income, all of

which brought 1987 net operating expenses to \$519 million. Net spending for 1988 is expected to total \$555 million.

The major source of Federal Reserve income, estimated at \$16.4 billion in 1987, is earnings on the portfolio of U.S. government securities in the System Open Market Account. The System uses purchases and sales from this portfolio to implement monetary policy. Gains on foreign exchange transactions approximated \$1.8 billion.

Each year the Federal Reserve returns to the U.S. Treasury its earnings in excess of expenses, dividends, and surplus—in 1987, an estimated \$17.7 billion. These earnings are treated as receipts in the U.S. budget accounting system; projections of these earnings by the Office of Management and

Budget appear in the U.S. budget.

Part I of this report discusses Federal Reserve budgeted expenses for 1988 for the System as a whole and for the Board of Governors and the Reserve Banks taken separately. Part II contains a chapter on services the System provides to the U.S. Treasury and other government agencies. Appendixes give additional information on System operations, budget processes, special categories of System expense, sources and uses of funds, Federal Reserve System audits, and Bank expenses and employment.

This report, a complete discussion of the System's budget, is a companion to the Board's *74th Annual Report, 1987*. That document covers all activities and initiatives of the Federal Reserve System during the year.

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*Part I*

*The 1988 Budgets*

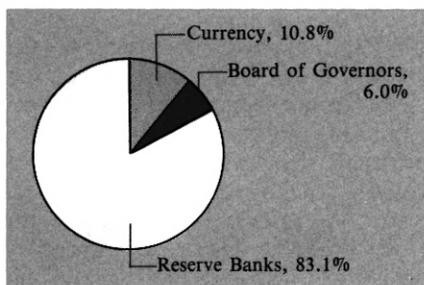
## Chapter 1

# Federal Reserve System

For 1988, the Federal Reserve System has budgeted operating expenses of \$1,336 million, an increase of 4.3 percent over estimated 1987 expenses. System operating expenses comprise the budget for the Reserve Banks, \$1,245 million, and for the Board of Governors, \$91 million (table 1.1). The budget for the cost of currency is an additional \$162 million for 1988, a decrease of 5.0 percent from the estimated 1987 cost.<sup>1</sup> When the cost of currency is added to operating expenses, the Reserve Banks account for 83.1 percent of the total; the Board, 6.0 percent; and currency, 10.8 percent (chart 1.1). Chapter 2 discusses the

budget for the Board; chapter 3 covers the Reserve Banks. The operational areas of the System are listed later in this chapter and described in more detail in appendix A; appendix B describes the System's budget process.

*Chart 1.1*  
Distribution of Operating Expenses of the Federal Reserve System and Cost of Currency, 1988<sup>1</sup>



1. See text note 1.

1. Public demand for new currency and the cost of printing at the Bureau of Engraving and Printing largely determine currency costs of the Federal Reserve; thus, they are not included in the analyses of System operating expenses. For a further discussion of currency costs, see chap. 2 and appendix C.

*Table 1.1*

Operating Expenses of the Federal Reserve System and Cost of Currency, 1986-88<sup>1</sup>

Millions of dollars, except as noted

Entity and type of expense	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
<b>Reserve Banks<sup>2</sup></b> .....	<b>1,161.3</b>	<b>1,194.3</b>	<b>1,245.1</b>	<b>2.8</b>	<b>4.3</b>
Personnel .....	729.5	741.7	775.8	1.7	4.6
Nonpersonnel .....	431.8	452.5	469.3	4.8	3.7
<b>Board of Governors<sup>3</sup></b> .....	<b>84.0</b>	<b>86.5</b>	<b>90.6</b>	<b>3.0</b>	<b>4.7</b>
Personnel .....	59.4	60.2	63.4	1.3	5.4
Nonpersonnel .....	24.6	26.4	27.3	7.1	3.5
<b>System operating expenses</b> .....	<b>1,245.3</b>	<b>1,280.8</b>	<b>1,335.7</b>	<b>2.9</b>	<b>4.3</b>
Personnel .....	788.9	801.9	839.2	1.6	4.7
Nonpersonnel .....	456.4	478.9	496.6	4.9	3.7
<b>Currency<sup>4</sup></b> .....	<b>181.2</b>	<b>170.7</b>	<b>162.2</b>	<b>-5.8</b>	<b>-5.0</b>

1. In this and subsequent tables in this volume, details may not add to totals because of rounding.

2. For detailed information see chap. 3.

3. For detailed information see chap. 2.

4. See text note 1 and appendix C.

Table 1.2

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 1986-88

Millions of dollars, except as noted

Item	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Total System operating expenses .....	1,245	1,281	1,336	2.9	4.3
LESS					
Revenue from priced services .....	628	645	658	2.8	2.0
Other income <sup>1</sup> .....	1	10	12	...	20.0
Claims for reimbursement <sup>2</sup> .....	112	106	110	-5.1	3.4
EQUALS					
<b>Net System operating expenses .....</b>	<b>504</b>	<b>519</b>	<b>555</b>	<b>2.9</b>	<b>7.0</b>

1. Beginning in 1987, about \$10 million charged to depository institutions for Treasury services was recorded as Federal Reserve income rather than transferred directly to the U.S. Treasury and claimed as a reimbursement.

2. The costs of fiscal agency services to the U.S. Treasury and other government agencies for which the agencies have agreed to reimburse the Federal Reserve. In practice, not all these claims are paid. See chap. 4.

## Net Expense

The System recovers much of the expense it incurs in providing its services. Total expenses are offset by the following items: (1) receipts for payments-mechanism services provided to depository institutions; (2) income for services on behalf of the U.S. Treasury that are charged to depository institutions using the services; and (3) expenses that are reimbursable by the U.S. Treasury and other government agencies for fiscal agency services. These receipts and claims for reimbursement are budgeted at \$780 million for 1988; hence, 1988 expenses net of these receipts and claims is expected to be \$555 million, or 42 percent of total expenses (table 1.2).

As required by the Monetary Control Act of 1980 (MCA), fees for priced services to depository institutions are set to recover the full cost of the services. Under the MCA, the full cost includes all direct costs, the imputed costs of float, and the return on capital that would have been provided and the taxes that would have been paid had the services been furnished by a busi-

ness firm in the private sector. The revenue from priced services is detailed in table 1.3.; the discipline imposed on Federal Reserve budgets by the need to keep such services competitive is discussed in appendix C.

The "other income" shown in table 1.2 includes fees from services such as the transfer of U.S. Treasury book-entry securities in the secondary market, the settlement of such transfers among depository institutions, and the wire transfer of funds between a depository institution and the Treasury. Reimbursements from government agencies are discussed in chapter 4.

Table 1.3

Revenue from Priced Services, 1986-88

Millions of dollars

Service	1986 actual	1987 estimate	1988 budget
Funds transfer and net settlement .....	70	50	69
Automated clearinghouse .....	31	36	40
Commercial check .....	483	496	506
Book-entry securities .....	8	8	9
Definitive securities .....	7	7	7
Noncash collection .....	13	13	13
Cash services .....	14	14	15
<b>Total .....</b>	<b>628</b>	<b>645</b>	<b>658</b>

All sources and uses of funds are presented in appendix D; the audits of the System are discussed in appendix E.

### Trends in Expenses and Employment

Over the period 1978–88, the operating expenses of the System increased an average of 6.6 percent per year in current dollars and 1.3 percent per year when adjusted for inflation (chart 1.2). Over the same period, employment in the System decreased by a total of 431, or 1.7 percent (chart 1.3).

The passage of the MCA in 1980 forced the System to increase expenses and employment. The act extended reserve requirements to all nonmember banks and thrift institutions, requiring the Federal Reserve to establish new systems for the collection of data and maintenance of deposit accounts. Also under the MCA, all depository institutions obtained access to Federal Reserve services.

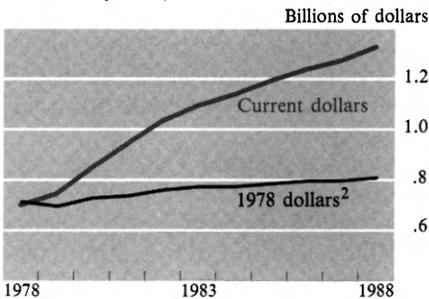
Since the 1982 completion of the transition to the requirements of the MCA, System expenses have increased an average of 4.2 percent per year in

current dollars and 1.1 percent per year in real terms. In that period, employment in the System declined by 238, or 1.0 percent, even though, since 1985, the Federal Reserve has increased the staff in a pronounced effort to strengthen the supervision and regulation of member banks and bank holding companies. The major reductions in employment have been in the area of services provided to financial institutions and the public and in the support and overhead areas.

### Operational Areas

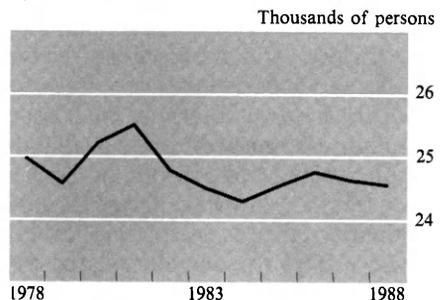
For budgeting purposes, the Federal Reserve classifies its expenses according to the four operational areas of the System: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and services to the U.S. Treasury and other government agencies (table 1.4). Costs for support and overhead are redistributed or allocated to these four areas. Services to the Treasury and other government agencies are performed only by the Reserve Banks; the operational area unique to the Board of Governors, System policy

*Chart 1.2*  
Operating Expenses of the Federal Reserve System, 1978–88<sup>1</sup>



1. For 1987, estimate; for 1988, budget.
2. Calculated with the GNP implicit price deflator.

*Chart 1.3*  
Employment in the Federal Reserve System, 1978–88<sup>1</sup>



1. For 1987, estimate; for 1988, budget.

Table 1.4

Operating Expenses of the Federal Reserve System, by Operational Area, 1986-88<sup>1</sup>

Millions of dollars, except as noted

Operational area and entity	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Monetary and economic policy .....	144.8	146.4	152.0	1.1	3.8
Reserve Banks .....	90.6	88.4	91.7	2.3	3.7
Board of Governors .....	54.3	57.9	60.2	6.8	3.9
Supervision and regulation .....	190.8	196.2	210.9	2.8	7.5
Reserve Banks .....	163.9	170.1	183.4	3.8	7.8
Board of Governors .....	26.9	26.1	27.5	2.7	5.0
Services to financial institutions and the public .....	772.9	802.3	830.4	3.8	3.5
Reserve Banks .....	770.0	799.9	827.5	3.9	3.4
Board of governors .....	2.9	2.4	2.9	-14.4	20.3
Services to the U.S. Treasury and other government agencies <sup>2</sup> .....	136.8	135.9	142.5	-0.7	4.9
<b>Total .....</b>	<b>1,245.3</b>	<b>1,280.8</b>	<b>1,335.7</b>	<b>2.9</b>	<b>4.3</b>
<b>Reserve Banks .....</b>	<b>1,161.3</b>	<b>1,194.3</b>	<b>1,245.1</b>	<b>2.8</b>	<b>4.3</b>
<b>Board of Governors .....</b>	<b>84.0</b>	<b>86.5</b>	<b>90.6</b>	<b>3.0</b>	<b>4.7</b>

1. Operating expenses reflect all allocations for support and overhead and exclude capital outlays. The operational area unique to the Board of Governors, system policy direction and oversight, which is shown separately in chap. 2, has been allocated across the

operational areas shown above. As a result, the numbers in chap. 2 for the operational areas are not the same as the ones listed in this table.

2. Reserve Banks only. The Board of Governors does not operate in this area.

direction and oversight, is an overhead expense of the System.

### 1988 Budget Initiatives

Two major initiatives are planned for 1988. Implementation of the Expedited Funds Availability Act (title VI of Public Law 100-86, the Competitive Equality Banking Act of 1987) is expected to cost \$15 million; and a research and development project to explore digitized image processing of checks is budgeted at \$6 million.

The Expedited Funds Availability Act of 1987, which becomes effective on September 1, 1988, requires the Federal Reserve to devise and issue regulations to ensure prompt availability of funds and to expedite the return of checks. The law was enacted too late in the budget process for the Federal Reserve Banks to include related expenses on the effort in their 1988 budgets.

The Board decided to develop digitized image processing of checks after work over the past two years demonstrated the likelihood that this technology will improve the payments mechanism. Because the project is relatively costly, but not lengthy, the Board established a separate budget for it that is not included in the base of operating expenses.

The Federal Reserve continues to emphasize the area of supervision and regulation. Under deregulation, bank holding companies have developed new services and product lines, which in turn require more applications and more examinations of banks and holding companies.

Also affecting the 1988 budget are projects on behalf of the U.S. Treasury. In 1988, the System will recognize the full-year effect of operating Treasury Direct, a system begun in 1987 to handle in book-entry (electronic) form all Treasury securities bought and sold

by individuals. Other initiatives undertaken for the Treasury include development of the Public Debt Accounting and Reporting System (PARS), the centralization of bond inscription by issuing agents, and the high-speed processing of redeemed bonds. These projects add costs in 1988; but they are also expected to cut expenses for the Federal Reserve and the U.S. government in the future.

Automation also affects the System-wide 1988 budget. The Board and several Reserve Banks are expanding office automation systems, and some locations are establishing additional capabilities for contingency processing

for critical operations, such as funds and securities transfers.

Finally, like the 1987 budget, the 1988 budget gave no consideration to the effects on expenses of the implementation of Financial Accounting Standards Board statement number 87, Employers' Accounting for Pensions. The System implemented this standard in 1987; in accordance with its terms, the System recognized a credit to overall 1987 expenses and will likely record a credit to expenses in 1988. This credit, however, is not reflected as a reduction in the 1987 estimated expenses or 1988 budgeted expenses for the System.

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## Chapter 2

# *Board of Governors*

This chapter discusses the operating and capital budgets of the Board of Governors and analyzes expenses for the major operational areas of the Board: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and System policy direction and oversight.

### **An Overview of the Board's 1988 Budget**

The 1988 operating budget of the Board of Governors is \$90.6 million, an increase of \$4.1 million, or 4.7 percent, over estimated expenses for 1987. The Board's operating budget is 6.0 percent of the System's total budget, including currency costs (see chapter 1).

The growth in Board expenses between 1987 and 1988 arises from several factors: a general pay increase and routine salary actions (\$2.8 million of the increase); higher costs for retirement and insurance associated with higher rates for social security and health insurance, respectively (\$639,000); increases in the unit cost and volume of goods and services used by the Board (\$700,000); the creation in late 1987 of an Office of the Inspector General (\$333,000); and automation of procedures to manage currency purchases and distribution (\$344,000)—this project will save at least \$500,000 per year in System costs for currency processing.

Offsetting about \$400,000 of these increases is an extension of the depreciation schedule for the Board's mainframe computer to match more closely

its useful life. Other cost savings and initiatives eliminate another \$200,000 from the increase over last year.

In June 1987, the Board approved a budget guideline for 1988 that was 3.5 percent higher than estimated 1987 expenses to maintain current operations and initiate specific projects (see appendix B for a description of the budgeting process). The approved growth of 4.7 percent over 1987 expenses includes 3.0 percent to meet the purposes of the guideline and 1.7 percent for approved initiatives not identified in the guideline.

The 1988 budget designates resources to implement the Expedited Funds Availability Act and to further strengthen the supervision function. The budget supports improvements to the Board's internal controls through the new Office of the Inspector General and expands information available for monetary and economic policymaking by funding new surveys. Finally, the budget continues to fund the expansion of office automation and end-user computing. Table 2.1 shows the Board's 1988 operating budget by object of expense.

Centralized automation services provided by the Information Resources Management (IRM) divisions account for a significant part of the Board's resources. The recently adopted system of charges for using IRM resources allows the Board's divisions, within certain constraints, to draw on other sources for computing. This element of competition and accountability encourages both the users and the providers of the resources to be more efficient. In conjunction with improved

Table 2.1

## Operating Expenses of the Board of Governors, by Object, 1986-88

Thousands of dollars, except as noted

Object	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
<i>Personnel</i>					
Salaries .....	53,907	53,936	56,977	0.1	5.6
Retirement <sup>1</sup> .....	2,670	2,935	3,242	9.9	10.5
Insurance <sup>2</sup> .....	2,793	3,287	3,642	17.7	10.8
Total .....	59,370	60,159	63,863	1.3	6.2
<i>Nonpersonnel</i>					
Travel .....	2,541	2,825	3,005	11.2	6.4
Postage .....	1,011	812	925	-19.7	13.9
Telephone and telegraph .....	1,481	1,387	1,494	-6.4	7.8
Printing and binding .....	919	967	954	5.2	-1.3
Publications committee .....	10	42	26	327.4	-37.1
Stationery and supplies .....	1,162	1,009	910	-13.2	-9.8
Software and supplies .....	2,090	2,601	2,585	24.5	-0.6
Cafeteria .....	500	525	569	5.0	8.4
Furniture and equipment .....	804	802	605	-0.4	-24.5
Rentals .....	2,358	1,474	774	-37.5	-47.5
Books and subscriptions .....	438	445	525	1.6	18.1
Utilities .....	1,490	1,580	1,638	6.1	3.7
Repairs and alterations .....	892	1,094	1,082	22.7	-1.1
Maintenance .....	1,208	1,872	2,432	54.9	29.9
Contractual professional services .....	2,162	2,314	2,900	-8.8	25.3
Interest .....	44	10	*	-77.2	-96.0
Education and membership fees .....	591	746	744	26.1	-0.2
Subsidies and contributions .....	703	655	668	-6.8	2.0
Depreciation .....	5,793	7,540	7,704	30.2	2.2
Other .....	313	427	542	36.5	26.9
Contingency income .....	-1,544	-1,686	-1,853	9.2	9.9
Cafeteria sales .....	-701	-740	-763	5.6	3.1
Loss (gain) from disposition of assets .....	358	0	0	...	...
Total .....	24,626	26,699	27,468	6.8	2.9
Savings target .....	...	...	-700	...	...
Adjustment to estimated expenses .....	...	-328	...	...	...
<b>Total .....</b>	<b>83,996</b>	<b>86,531</b>	<b>90,631</b>	<b>3.0</b>	<b>4.7</b>

1. Increases largely attributable to higher rates for social security.

2. Increases attributable to higher rates for health insurance.

\*Less than \$500.

productivity and quality in the IRM divisions, these efficiencies have reduced the percentage of the Board's budget devoted to centrally provided IRM resources in 1988.

### The Budget by Operational Area

Tables 2.2 and 2.3 show respectively the operating expenses and the number of authorized positions in each of the Board's four operational areas for the years 1986-88. The expenses exclude capital outlays and include an allocation for support and overhead. Spend-

ing within operational areas responded primarily to Boardwide factors, such as the general pay increase, and to elements unique to each area: in monetary and economic policy, higher costs for automation and an expanded program of surveys; in supervision and regulation, additional staffing and automation initiatives; in services to financial institutions and the public, the effort to implement the Expedited Funds Availability Act and to automate management of currency purchases and transportation; and in System policy direction and oversight, the

Table 2.2

Operating Expenses of the Board of Governors, by Operational Area, 1986-88<sup>1</sup>

Thousands of dollars, except as noted

Operational area	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Monetary and economic policy .....	44,019	46,373	48,514	5.3	4.6
Supervision and regulation .....	21,616	20,853	21,911	-3.5	5.1
Services to financial institutions and the public .....	2,306	1,949	2,457	-15.5	26.1
System policy direction and oversight .....	16,054	17,356	17,749	8.1	2.3
<b>Total .....</b>	<b>83,995</b>	<b>86,531</b>	<b>90,631</b>	<b>3.0</b>	<b>4.7</b>

1. Operating expenses reflect all allocations for support and overhead. They exclude capital outlays. The operational area, services to the U.S. Treasury and

other government agencies, is unique to the Reserve Banks and is not shown here; see chaps. 1 and 3.

Table 2.3

## Positions Authorized at the Board of Governors, by Activity, 1986-88

Activity	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Monetary and economic policy .....	397	396	397	-.3	.3
Supervision and regulation .....	262	261	264	-.4	1.1
Services to financial institutions and the public .....	15	22	22	46.7	0
System policy direction and oversight .....	156	149	148	-4.5	-.7
Support and overhead <sup>1</sup> .....	738	741	738	.4	-.4
<b>Total .....</b>	<b>1568</b>	<b>1569</b>	<b>1569</b>	<b>.1</b>	<b>0</b>

1. Includes data processing services.

establishment of the Office of the Inspector General.

### Monetary and Economic Policy

In the area of monetary and economic policy, the Board monitors and analyzes developments in the money and credit markets, sets reserve requirements, approves changes in the discount rate, and otherwise manages the nation's monetary policy. The costs of this function are expected to total \$48.5 million in 1988, an increase of \$2.1 million, or 4.6 percent, over 1987.

The budget in this area supports economic analysis and forecasts, research surveys, and the expansion of decentralized computing facilities. A

heavy workload and the needs of the Board and the Federal Open Market Committee for information about international economic and financial developments have demanded a rapid expansion of facilities for handling and storing data. The major means to achieve this expansion has been the installation of networks of microcomputers in the Divisions of Research and Statistics, Monetary Affairs, and International Finance. The installations are to be completed during 1988; they will cost the Board \$356,000 in operating expenses (excluding depreciation) and \$1,367,000 in capital funds in that year. The expansion of decentralized computing has allowed a sharp decrease in charges for mainframe com-

puting that, in turn, has checked the rise in spending in this area.

The installation of the local area networks, together with lower operating costs for mainframe services, has reduced costs for mainframe support by approximately \$1.4 million. This saving offsets a portion of the increases attributable to the automation network itself, to one new position for managing the data on the debt problems of developing countries, and to a workshop and three new surveys to be conducted in 1988 at a cost of \$591,000.

The first survey will examine the use of financial institutions and services, and especially of banks, by small businesses. The Small Business Administration will collaborate on the survey and is expected to contribute \$100,000 toward it; Board costs are expected to be \$400,000. The survey, to begin in January 1988, may continue through June 1989. The second survey will query households on their use of traditional and nontraditional sources of financial services. Scheduled to start in February 1988, it will last approximately one year and cost the Board \$170,000. The third survey will focus on consumer finances to help evaluate and improve the Board's flow of funds statistics for the household sector. The design work is scheduled in 1988 at a cost of \$21,000 and will include an advisory workshop of government and academic experts. The survey itself will require additional funds, to be budgeted for 1989.

### Supervision and Regulation

Supervision of financial institutions at the Board includes reviews of reports from the Reserve Banks, special studies related to applications for international banking activities, direction of enforcement actions, and regulation

of trust activities. Regulation of financial institutions includes issuing regulations; overseeing mergers, foreign banking activities, and compliance with consumer regulations; and regulating securities credit. The 1988 budget of \$21.9 million for supervision and regulation is \$1.1 million, or 5.1 percent, more than estimated expenses for 1987.

The budget supports the continued reorganization of the supervision function, which was started in 1986. Growth and specialization has made it useful to divide the supervision function into foreign and domestic segments. Administrative support for the processing of applications is also realigned. Neither change involves extra cost.

The 1988 budget adds three positions to supervision and regulation to strengthen the management and analysis of data. The budget also funds higher personnel costs than last year because vacancies on the legal staff are expected to be fewer on average.

### Services to Financial Institutions and the Public

Services to financial institutions and the public comprise Board staff support and oversight of check payments, electronic payments, and currency and food coupon services provided at the Reserve Banks.

The budget for this operational area is \$2,457,000, which is \$508,000, or 26.1 percent, more than 1987 estimated expenses. The increase is tied to two projects: (1) a major automation initiative designed to improve the management of currency operations and (2) implementation of legislation passed in 1987 to expedite the availability of funds deposited in financial institutions.

The automation project, which will

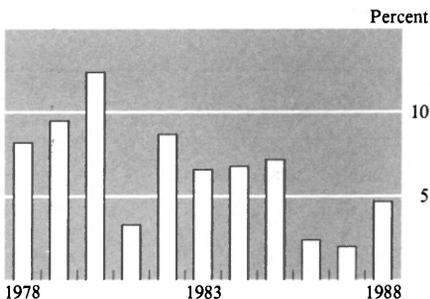
have a direct cost of \$344,000, will allow estimated annual savings of at least \$500,000 in the System's currency budget by reducing the number of shipments and the volume of currency ordered.

The Expedited Funds Availability Act, passed by the Congress in August 1987, requires the Board to publish rules that improve the responsiveness of the check clearing system and shorten the time required to make funds available to the depositor. Two positions were added in this operational area in late 1987 to meet the deadlines in the legislation. The full-year costs of these positions and related support account for a portion of the incremental expenses in this operational area. The 1988 budget adds no positions to the year-end 1987 number.

### System Policy Direction and Oversight

System policy direction and oversight covers the supervision of System and Board programs. The budget for this operational area, \$17,749,000, is \$393,000, or 2.3 percent, more than estimated 1987 expenses. The increase

*Chart 2.1*  
Annual Rate of Change in Operating Expenses of the Board of Governors, 1978-88<sup>1</sup>



1. For 1987, estimate; for 1988, budget

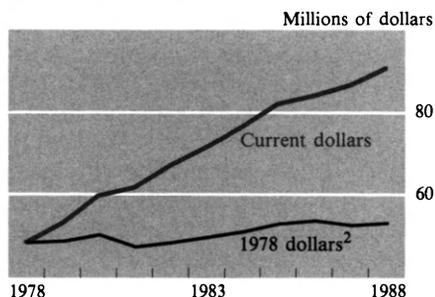
arises from two factors. First, the establishment of the Office of the Inspector General in late 1987 added \$333,000 to expenses. Second, the number and length of position vacancies was high in 1987; the 1988 budget assumes that filling vacancies will take less time. These increases are largely offset by a decrease in the development costs of a major automation project that provides support for administrative tasks at the Board such as personnel and payroll.

### Trends in Board Expenses and Positions

Expenses budgeted for 1988 are 4.7 percent greater than expenses estimated for 1987. As chart 2.1 shows, this rate of increase is higher than those for 1986 and 1987 but lower than that for seven of the last ten years. In that period, the highest rate of increase was for 1980, when inflation, coupled with the passage of the Monetary Control Act, worked to increase the Board's operating expenses by 12.4 percent. The low (3.3 percent) increase in 1981 was attributable to the Board's program to cut spending and reduce the number of positions as well as to a dramatic reduction in payments to the Board retirement system to fund the cost-of-living adjustments (COLAs) for retirees. In 1982, without that reduction, the rate of growth began to rise again at a relatively stable pace until 1985. A decrease in the rate of growth for personnel expenses in 1986 and 1987 resulted from another program of position reductions.

Chart 2.2 compares the Board's operating expenses in current and constant dollars over the same 10-year period. In current dollars, Board expenses increased an annual average of 6.4 percent between 1978 and 1988; in

Chart 2.2

Operating Expenses of the Board of Governors, 1978-88<sup>1</sup>

1. For 1987, estimate; for 1988 budget.
2. Calculated with the GNP implicit price deflator.

constant dollars, or real terms, expenses rose only 0.9 percent per year on average, despite major additions to the Board's responsibilities mandated by the Congress over the period. Future additions to the Board's mission or responsibilities may dictate corresponding budget increases.

In the early years of the period, real expenses declined as salaries, a large element in the Board's expenses, rose less than prices. Real expenses began to rise again in 1982, when expenses to fund COLAs for retirees rose significantly and when the staff grew to meet the phased-in requirements of legislation passed in 1979 and 1980. The rate

of increase ranged from 2.5 percent to 3.5 percent from 1982 through 1985 as the costs of centralized automation, primarily for programming staff, rose to meet the requirements of the legislation.

To stem the growth in expenses, the Board in 1984 established the Program Improvement Project (PIP) to raise productivity, delete lower-priority work, and reduce costs. PIP reduced the number of positions at the Board by 8.5 percent. Although in real terms the 1988 budget is slightly higher than the estimated expenses for 1987, it is lower than the expenses for 1986.

### Five-Year Trend

Spending in current dollars will rise in 1988 at about the same rate as it did on average in the 1983-88 period (table 2.4). Many factors raised the costs of all four operational areas over the last five years: general pay increases; the addition of medicare payments for federal employees and significant increases in rates for health insurance; changes in federal retirement programs and increased social security rates. These cost increases were partially offset by the savings stemming from PIP. This section will focus on other

Table 2.4

Operating Expenses of the Board of Governors, by Operational Area, 1983-88

Thousands of dollars, except as noted

Operational area	1983	1984	1985	1986	1987 estimate	1988 budget	Percent change	
							1983-88 <sup>1</sup>	1987-88
Monetary and economic policy	38,574	41,916	45,136	44,019	46,373	48,514	4.7	4.6
Supervision and regulation	18,721	18,034	19,259	21,616	20,853	21,911	3.2	5.1
Services to financial institutions and the public	1,948	2,493	2,589	2,306	1,949	2,457	4.8	26.1
System policy direction and oversight	12,382	14,032	15,051	16,054	17,356	17,749	7.5	2.3
<b>Total</b>	<b>71,625</b>	<b>76,475</b>	<b>82,035</b>	<b>83,995</b>	<b>86,531</b>	<b>90,631</b>	<b>4.8</b>	<b>4.7</b>

1. Annual average.

factors, those that were unique to each operational area.

### *Monetary and Economic Policy*

Expenses for the monetary and economic policy operational area are rising in 1988 at about the same rate as that for Board expenses as a whole; the 1988 rate for this area is also about the same as the 1983–88 average for the area and for the Board.

From 1983 through 1985, expenses in this area rose 8.2 percent per year on average, responding to the tremendous increase in the volume of data associated with the Monetary Control Act. The drop to a 1.4 percent annual rate of growth from 1985 through 1987 reflects PIP-related declines in expenses for staffing.

The number of positions in this operational area has fallen sharply over the five years. No functions have been eliminated; rather, staff productivity has increased through automation and reorganizations that streamlined operations. The primary effect of the reduction in staff has been a reduction of long-term research.

### *Supervision and Regulation*

The budgeted increment in expense for supervision and regulation for 1988, 5.1 percent, exceeds the five-year trend for this area and for the Board as a whole. The increase reflects the strengthening of the supervision effort at the Board in recent years and the addition of three positions in the 1988 budget.

Over the years from 1983 to 1987, expenses first increased to support the Neighborhood Reinvestment Corporation and to fund an increase in the volume of data processing supporting application processing, examinations, and surveillance. Expenses then fell in 1984 as parts of these projects were

completed and as activity in the consumer regulation area declined.

Over the two years 1985 through 1987, expenses rose 8.3 percent to fund the major automation initiative in 1985 and the new positions authorized in 1986 to enhance the supervision function. The automation initiative was essential to handle the growing volume of applications processed during the period. It also allowed more timely analyses of troubled financial institutions.

### *Services to Financial Institutions and the Public*

Expenses for services to financial institutions and the public in 1987 were almost identical to those in 1983. However, expenses will rise 26.1 percent in 1988, largely to develop an automated program to improve the management of currency distribution and thereby to reduce costs to the System. Incremental costs of the Expedited Funds Availability Act of 1987 also affect expenses for 1987 and 1988 in this area.

A project to limit risk from daylight overdrafts in the electronic payments mechanism raised expenses in 1984 and 1985. The drop in 1986 reflected the elimination of the service pricing program and the completion of part of the daylight overdraft project. Expenses fell further in 1987 as the remaining portions of the daylight overdraft project were transferred to the monetary and economic policy operational area.

### *System Policy Direction and Oversight*

The 1988 rate of increase in spending for System policy direction and oversight is considerably below the five-year average annual pace for this area and for all Board activities.

The relatively high rate of growth in expenses for this area during those five years was tied to development costs for improving office automation and administrative data management as well as for procedures and resources to enhance oversight of key Reserve Bank operations. These costs have now started to decline. In the meantime, the investment in this area has begun to bear fruit in the improvement of efficiency within the other operational areas.

10-Year Trend

This section covers expenses for both personnel and nonpersonnel services during the 1978-88 period.

Personnel Services

From 1978 to 1988, expenses for personnel services grew at 5.4 percent per year on average in current dollars and fell slightly in constant dollars (chart 2.3). Until 1984, much of the growth in this area related to increases in the number of staff members, general pay increases (GPIs) for Board staff, and COLAs for retirees. The rate of increase leveled off in 1985, when the

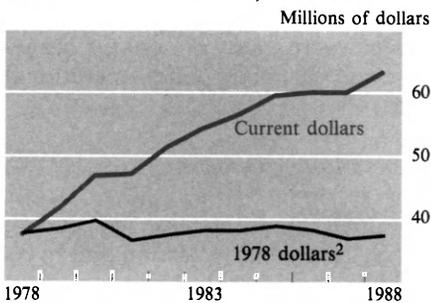
GPI was only 4.0 percent, and then declined in 1986 as a result of the decrease in the number of positions.

Employment and Positions

On balance, from 1978 to 1988, the number of budgeted positions declined slightly, as chart 2.4 shows. A 1979 program to reduce positions eliminated 36 in that year. In the following year, 67 positions were added, most of them to handle the workload generated by the Monetary Control Act. Thirty-two positions were eliminated in 1981, but increases in the workload forced the addition of 110 more from 1981 through 1984, mostly in data processing (50 positions), in the new Contingency Processing Center (17), in the oversight portion of the System policy direction and oversight operational area (15), and in the supervision and regulation operational area (6).

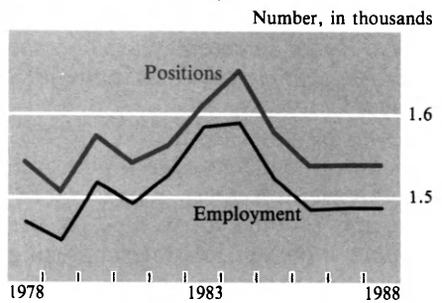
PIP was responsible for abolishing 143 positions during 1985 and 1986. During 1986, 22 other positions were abolished in data processing as a result of improvements in productivity and the tightening of accountability for these resources. But, to meet new responsibilities and general increases

Chart 2.3 Expenses for Personnel Services at the Board of Governors, 1978-88<sup>1</sup>



1. For 1987, estimate; for 1988, budget.  
 2. Calculated with the GNP implicit price deflator.

Chart 2.4 Employment and Positions at the Board of Governors, 1978-88<sup>1</sup>



1. Year-end data. For 1987, estimate; for 1988, budget.

in workload, 20 positions were added in the supervision and regulation operational area and 19 positions in other areas.

Employment and positions are expected to remain constant from year-end 1986 through 1988, with increases in some key areas offset by reductions in less critical areas. Six new positions added to the budget in 1988 support the operational areas of supervision and regulation and monetary and economic policy. Reductions occur mostly in centralized data processing, by virtue of a decline in user requirements and of gains in productivity.

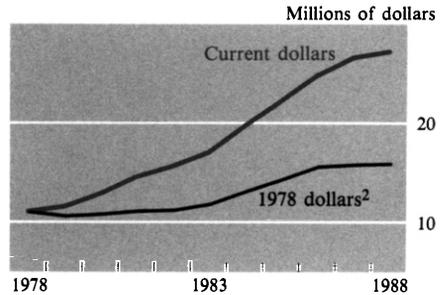
### *Nonpersonnel Services*

Between 1978 and 1988, the cost of nonpersonnel services on average rose faster, in current and constant dollars, than the cost of personnel services (chart 2.5). Four accounts increased dramatically: maintenance, mainly for mainframe and office automation equipment; contractual professional services, primarily for support for mainframe software; repairs and alterations, mainly for the care and upkeep

of buildings and grounds; and software and supplies, for microcomputer software. Expenses decreased significantly in only three categories during the period: publications, as increases in income from subscriptions have more than offset those in expenses; fees, as the use of consulting services declined; and rentals, as the purchase of high-technology equipment has become more attractive than leasing.

*Chart 2.5*

Expenses for Nonpersonnel Services at the Board of Governors, 1978-88<sup>1</sup>



1. For 1987, estimate; for 1988, budget.
2. Calculated with the GNP implicit price deflator.

## Chapter 3

# Federal Reserve Banks

This chapter presents the expenses and budgets of the Federal Reserve Banks. An overview of all the Districts for 1988 presents the aggregate budgets for personnel and nonpersonnel expenses, major initiatives, and the budget objective. Subsequent sections provide details for the four operational areas, objects of expense, capital outlays, and long-term trends.

Appendix F gives further data, including a summary of the budget performance of the Reserve Banks in 1987 and trends in expenses by operational area.

### An Overview of the 1988 Budget

For 1988, the Board of Governors has approved an operating budget of \$1,245.1 million for the Federal Reserve Banks. This is an increase of \$51.9 million, or 4.3 percent, over estimated expenses in 1987 after excluding \$1.1 million counted in 1987 operating expenses for development of digitized image processing of checks (table 3.1).<sup>1</sup> The Reserve Banks have not included in their budgets the \$6.2 million cost in 1988 for research and development of check image processing, a project described later in this chapter. Also excluded are an estimated \$15 million of expenses to implement the Expedited Funds Availability Act. These costs bring the 1988 operating budget for the Reserve Banks to \$1,266.3 million, an increase of \$72 million, or 6.0 percent, over 1987 expenses. Implementation of the expe-

ditioned funds legislation will also require \$15 million of capital expenditures; when added to the capital budget, these costs will bring 1988 capital spending to \$240.9 million.

Personnel expenses comprise salaries and benefits and account for 62 percent of the Banks' expenses in 1988; at \$775.8 million, they are \$34.1 million, or 4.6 percent, higher than estimated for 1987. This increase is partially offset by a reduction of 74, or 0.3 percent, in the average number of personnel, to 23,031.<sup>2</sup> This reduction includes the effect of early retirement programs, which the Board of Governors has approved at seven Reserve Banks. Employment will be lower in overhead services, services to the U.S. Treasury, and priced and nonpriced services to financial institutions; it will be higher in supervision and regulation and in monetary and economic policy.

Nonpersonnel expenses are budgeted at \$469.3 million, an increase of \$16.7 million, or 3.7 percent. These expenses are influenced primarily by automation and building projects, which result in higher expenses for the following major items: depreciation and maintenance of equipment, rent, property depreciation, and real estate taxes.

1. Appendix B describes the budget process for the Reserve Banks.

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.

Table 3.1

Operating Expenses of the Federal Reserve Banks, 1986-88<sup>1</sup>

Thousands of dollars, except as noted

Item	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Personnel.....	729,531	741,724	775,805	1.7	4.6
Nonpersonnel.....	431,759	452,547	469,297	4.8	3.7
<b>Total .....</b>	<b>1,161,290</b>	<b>1,194,271<sup>2</sup></b>	<b>1,245,102</b>	<b>2.8</b>	<b>4.3</b>

1. Including the costs of support and overhead service (see appendix F, table F.4, note 1, for definitions).

2. Includes \$1.1 million for the check image process-

ing project; for 1988, the project was removed from the operating budget and placed in a separate account. See table F.1.

## Major Initiatives in 1988

Several major initiatives account for a large percentage of the budgeted increase in Reserve Bank expenses: in building projects, programs for the U.S. Treasury, automation, supervision of banks and bank holding companies, contingency back-up, and improved cash operations (table 3.2).

Building projects will cost \$6.6 million in 1988. The most significant are the renovation and addition at the Chicago building (\$2.8 million); transitional costs for New York's remote operations center (\$1.6 million); a renovation and addition at Atlanta (\$800,000); asbestos containment at Minneapolis (\$400,000); the increase in taxes, property depreciation, and cost of utilities for the new Jacksonville building (\$300,000); and renovation and tenant improvements in Cleveland and Cincinnati (\$500,000).

Expenses for centrally provided Treasury services are budgeted to increase \$4.7 million, or 24.3 percent, with an increase of 82 ANP. Much of the increase is due to the first full year of operations of the Treasury Direct Access Book-Entry System (Treasury Direct) and the addition of reinvestment activity to the system. Also, the Cleveland Bank is continuing the development of an operation called the

Public Accounting and Reporting System at an increase in cost of \$290,000 and is managing two savings bonds projects at the Pittsburgh branch at a cost of \$420,000 in 1988.

Automation initiatives in the System will add \$3.9 million to operating costs in 1988. The major projects are a change in computer operating systems in San Francisco (\$1.3 million), the expansion of the office automation project in New York (\$1.2 million), and an office automation system for Minneapolis (\$600,000).

The guidelines of the Board of Governors regarding the frequency of examinations and inspections of financial institutions and the demands for oversight of these institutions will continue to require more staff and higher operating costs in supervision and regulation: costs will rise \$3.5 million in 1988, and employment in the supervision service will increase 2.7 percent, to 2,213 ANP.

Back-up facilities are being established to handle data processing contingencies for critical operations, such as the transfer of funds and securities; such facilities will cost \$2.9 million more in 1988 than they did in 1987. The most significant project is in the New York District and accounts for \$2.6 million of the increment.

Growth in the volume of currency

handled by the Banks requires an increase of \$2.0 million and 59 ANP. The Federal Reserve Banks of Boston, Philadelphia, Richmond, Minneapolis, and San Francisco plan to add shifts. The San Francisco District will also add two high-speed sorting machines in its Los Angeles Branch.

Beyond the major initiatives, 0.4 percentage point of the 4.3 percent rise in operating expense is due to increases of \$2.8 million in rent at the New York office, of \$1.4 million in the System's maintenance contract for currency processing equipment, and of nearly \$1.0 million in real estate taxes in Boston.

Table 3.2 shows that budgeted 1988 expenses for operations continuing from 1987 will rise 2.4 percent over estimated 1987 expenses and that the initiatives just summarized will add

1.9 percent for an overall growth of 4.3 percent.

### Check Image Processing

In addition to the initiatives discussed above, the Board of Governors has authorized further research and development of digitized image processing of checks. The technology captures check images electronically for computer storage and retrieval; it offers the promise of replacing microfilm, which the Federal Reserve uses to store images of truncated checks, including Treasury checks, and of speeding the transmittal of returned checks by substituting an electronic image for the physical check.<sup>3</sup>

Research authorized by the Federal Reserve in 1985 and conducted on its behalf has demonstrated the feasibility of making a computerized image of one side of a check at high speed under laboratory conditions. The technical demonstration was completed in 1987 at a cost for that year of approximately \$1.1 million, distributed across the operating budgets of all the Districts.

The next phases, for which \$6.2 million has been allocated in a special-project account separate from the System's operating budgets, will test the high-speed capture of both sides of checks plus the ability to store and retrieve the image data. These phases will be first conducted under laboratory conditions with a limited volume of checks and then at a Reserve Bank under production conditions.

The Federal Reserve will share the results of this research with the financial community, where it might also

*Table 3.2*  
Effect of Major Initiatives on the 1988  
Budget of the Reserve Banks

Thousands of dollars, except as noted

Item	Amount
<i>Operating expenses</i>	
1987 estimate .....	1,193,171 <sup>1</sup>
1988 budget .....	1,245,102
<b>Increase, 1987 to 1988</b>	
<b>Thousands of dollars</b> .....	<b>51,931</b>
<b>Percent</b> .....	<b>4.4</b>
LESS	
<i>Major 1988 initiatives:</i>	
Facilities .....	6,563
Programs for the U.S. Treasury .....	4,748
Automation .....	3,918
Increased supervision of banks and bank holding companies .....	3,460
Contingency back-up .....	2,916
Improved cash operations .....	1,961
Total .....	23,566
EQUALS	
<i>Increase excluding major 1988 initiatives</i>	
<b>Thousands of dollars</b> .....	<b>28,365</b>
<b>Percent</b> .....	<b>2.4</b>

1. Excluding \$1.1 million for the check image processing project.

3. Truncated checks are those that are not routinely sent to the account holder when cleared.

offer widespread benefits in the storage and exchange of check images.

### Budget Objective for 1988

The 1988 objective for the Banks, approved by the Board of Governors in the spring of 1987, provided for the increase in general Bank expenses (those excluding expenses unique to one District) to equal 4.3 percent of total estimated 1987 operating expenses. In addition, the objective provided a 0.6 percent rise over 1987 to cover expenses unique to one District and a 0.5 percent increase for work on check image processing, for an overall expansion of 5.4 percent (table 3.3). The Expedited Funds Availability Act was passed too late in the Federal Reserve budget process (August 1987) to include its associated expenses in the budget objective.

The approved operating budget for general Bank expenses is 4.0 percent higher than estimated 1987 expenses, compared to the objective of 4.3 percent. The total budget, 4.8 percent higher than 1987 estimated expenses, is lower than the overall objective by 0.6 percentage point, or \$7.2 million.

*Table 3.3*

Comparison of 1988 Budget of the Reserve Banks with 1988 Budget Objective

Percent increase from 1987 estimated expenses

Item	1988 budget	1988 budget objective
District expenses less those unique to one District .....	4.0	4.3
Expenses unique to one District .....	.3	.6
Check image processing project .....	.5	.5
<b>Total .....</b>	<b>4.8</b>	<b>5.4</b>

### Operational Areas

The following discussion presents Reserve Bank expenses and employment in each of the four operational areas. They are summarized in tables 3.4 and 3.5 and detailed in tables 3.6 through 3.9.

### Monetary and Economic Policy

Expenses for monetary and economic policy at the Federal Reserve Banks total \$91.7 million and account for approximately 7 percent of their 1988 budgets (table 3.6). Expenses are expected to increase \$3.3 million, or 3.7 percent, over 1987. Employment will increase 7 ANP, or 0.9 percent, to 788.

The rise in cost reflects the net addition to staff, salary actions, and improvements in office automation. Staff members were added in New York for testing the replacement for an eight-year-old system used for open market trading, intensifying the monitoring and analysis of debt in less developed countries, and studying the feasibility of receiving data electronically from reporting institutions; in Atlanta for continuing a special effort to improve the quality of economic research; and in Dallas for supporting a Southwestern economic development program.

### Supervision and Regulation

Expenses for supervision and regulation, which total \$183.4 million, are expected to increase \$13.3 million, or 7.8 percent, over 1987 (table 3.7). This area now accounts for 14.7 percent of total System expenses, compared with 12.8 percent in 1983. A staff level of 2,213 ANP is budgeted, an increase of 58, or 2.7 percent, over 1987.

Table 3.4

## Operating Expenses of the Federal Reserve Banks, by Operational Area, 1986-88

Thousands of dollars, except as noted

Operational area	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Monetary and economic policy .....	90,570	88,447	91,742	-2.3	3.7
Supervision and regulation .....	163,915	170,067	183,397	3.8	7.8
Services to financial institutions and the public .....	770,015	799,865	827,458	3.9	3.4
Services to the U.S. Treasury and other government agencies .....	136,789	135,892	142,504	-.9	4.9
<b>Total .....</b>	<b>1,161,290</b>	<b>1,194,271</b>	<b>1,245,102</b>	<b>2.8</b>	<b>4.3</b>

Table 3.5

## Employment at the Federal Reserve Banks, by Operational Area, 1986-88

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

Activity	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
<i>Operational areas</i>					
Monetary and economic policy .....	791	781	788	-1.2	.9
Supervision and regulation .....	2,087	2,155	2,213	3.2	2.7
Services to financial institutions and the public .....	8,799	8,767	8,746	-.4	-.2
Services to the U.S. Treasury and other government agencies .....	1,819	1,826	1,800	.4	-1.4
<i>Support and overhead<sup>2</sup></i>					
Support .....	4,469	4,517	4,541	1.1	.5
Overhead .....	5,274	5,057	4,945	-4.1	-2.2
<b>Total .....</b>	<b>23,239</b>	<b>23,103</b>	<b>23,033</b>	<b>-.6</b>	<b>-.3</b>

1. See text note 2 for definition of ANP.

2. See appendix F, table F.4, note 1, for definitions.

The increase in costs is driven by demands for resources in the bank supervision area. These demands arise from the continually changing conditions in the banking industry. For example, deregulation has led bank holding companies to develop new service and product lines, which call for more examinations of banks and holding companies; moreover, firms throughout the industry are becoming larger and more complex.

As in the past, the Reserve Banks are attempting to use resources more efficiently by increasing the use of personal computers in the field and in the office, by accelerating the develop-

ment of examiners, and by hiring candidates with relevant experience.

### Services to Financial Institutions and the Public

The area of services to financial institutions and the public, which includes both priced and nonpriced services, is budgeted at \$827.5 million and accounts for approximately two-thirds of the operating expenses of the Reserve Banks (table 3.8). Expenses are rising \$27.6 million, or 3.4 percent, above those in 1987; however, this area accounts for only a slightly higher share of total expenses than it did in

Table 3.6

Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1986-88

Thousands of dollars, except as noted

Item	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Economic policy determination .....	79,437	75,729	76,847	-4.7	1.5
Open market trading .....	11,133	12,718	14,895	14.2	17.1
<b>Total .....</b>	<b>90,570</b>	<b>88,447</b>	<b>91,742</b>	<b>-2.3</b>	<b>3.7</b>

Table 3.7

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1986-88

Thousands of dollars, except as noted

Item	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Supervision of District financial institutions .....	93,223	100,182	109,828	7.5	9.6
Administration of laws and regulations related to banking .....	64,325	63,012	65,801	-2.0	4.4
Studies of banking and financial market structures .....	6,367	6,873	7,768	7.9	13.0
<b>Total .....</b>	<b>163,915</b>	<b>170,067</b>	<b>183,397</b>	<b>3.8</b>	<b>7.8</b>

1983. Staffing is budgeted at 8,746 ANP, which is 21 ANP, or 0.2 percent, lower than in 1987.

Commercial check processing accounts for almost half of the budgeted expenses in this area and, at 5,150 ANP, about 60 percent of the staff. The increase in expenses in 1988 is expected to be only \$7.8 million, or 2.0 percent, over 1987, with a decrease of 15 ANP. Even with a smaller staff, the System expects to handle a 2.7 percent increase in the annual number of checks processed, to 15.3 billion. Unit cost is not expected to change in 1988.

Restraining the growth of expenses are early retirement programs, the consolidation of operations, incentive pay for productivity increases, and a new contract for interdistrict shipping. Expenses associated with implementation of the Expedited Funds Availability Act are not included in these data.

Expenses for currency processing

(\$121.5 million), which are expected to increase \$6.0 million, or 5.2 percent, in 1988, will constitute nearly 15 percent of the budget in this area. Changes in staffing are expected to result in a net increase of 37 ANP, or 2.4 percent, because of sharp increases in volume in some Districts. Overall volume is anticipated to expand 6.3 percent, but unit cost is projected to rise only 0.1 percent. New contracts for maintenance on the high-speed currency sorting machines will also raise costs in 1988. The increase in staffing arising from higher volumes at some Districts is partially offset by a new "containment" process at New York that will permit a reduction of 19 ANP there.

Expenses for the automated clearing-house service are budgeted to rise \$5.1 million, or 8.3 percent. The change reflects a 16.6 percent expansion in volume and an adjustment in account-

Table 3.8

## Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1986-88

Thousands of dollars, except as noted

Service	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Currency and coin .....	150,134	153,353	160,163	2.1	4.4
Commercial checks .....	379,781	397,474	405,307	4.7	2.0
Other checks .....	18,226	19,169	19,017	5.2	- .8
Funds transfers .....	57,951	56,693	58,532	-2.2	3.2
Automated clearinghouse .....	55,462	61,479	66,601	10.9	8.3
Book-entry securities transfers .....	19,962	23,108	25,919	15.8	12.2
Definitive securities safekeeping and noncash collections .....	19,771	18,337	18,487	-7.3	.8
Loans to members and others .....	12,812	13,343	13,965	4.1	4.7
Bank and public relations .....	35,120	36,999	38,610	5.3	4.4
Other .....	20,797	19,911	20,856	-4.3	4.7
<b>Total .....</b>	<b>770,016</b>	<b>799,866</b>	<b>827,457</b>	<b>3.9</b>	<b>3.4</b>

Table 3.9

## Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1986-88

Thousands of dollars, except as noted

Service	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Savings bonds .....	40,878	39,725	40,424	-2.8	1.8
Other Treasury issues .....	28,231	21,148	19,573	-25.1	-7.4
Centrally provided Treasury agency services .....	12,972	19,560	24,308	50.8	24.3
Government accounts .....	20,627	20,328	21,824	-1.4	7.4
Food coupons .....	12,131	12,261	12,574	1.1	2.5
Other .....	21,950	22,870	23,801	4.2	4.1
<b>Total .....</b>	<b>136,789</b>	<b>135,892</b>	<b>142,504</b>	<b>- .7</b>	<b>4.9</b>

ing to distribute the costs of data processing and data communications (DP/DC) more accurately. A decrease of 2 ANP is budgeted. Unit costs are expected to increase 1.1 percent.

The costs for funds transfer are expected to increase \$1.8 million, or 3.2 percent, on balance, reflecting a 6.1 percent rise in volume, an additional 3 ANP, and a decrease due to the DP/DC accounting change. Unit costs are expected to increase only 1.9 percent.

Costs for book-entry securities are expected to increase \$2.8 million, or 12.1 percent, because of an 11.7 percent increase in volume, initiatives to

reduce risk in the payments system, the DP/DC accounting change, and higher costs for the maintenance of shared software.

The budget for public relations, which shows an increase of \$1.6 million, or 4.4 percent, over 1987 expenses, pays for conferences, printed and video materials, occupancy, educational exhibits, and postage. The staff level is expected to decrease 6 ANP.

The "other" category will increase \$900,000, or 4.7 percent, reflecting automation initiatives at New York for services to other central banks that will permit a decline of 10 ANP.

## 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 \$142.5 million, an increase of \$6.6 million, or 4.9 percent, from 1987 (table 3.9). This area accounts for approximately 11 percent of operating costs. Staffing is budgeted to decrease 26 ANP, or 1.4 percent, to 1,800 ANP.

Consolidation of operations and higher levels of automation are two influences on these costs. Several Districts are consolidating operations at one office. The Banks are seeking greater efficiency through the substitution of electronic (“book-entry”) records for paper (“definitive”) securities and through the use of high-speed sorting machines to process food coupons and savings bonds.

The most significant initiatives are in centrally provided Treasury services; expenses here are budgeted to increase \$4.7 million, or 24.3 percent, and 82 ANP will be added to the staff. Much of this increase (\$4 million and 54 ANP) occurs because 1988 is the first full year of operation for the Treasury Direct system and because reinvestment activity has been added to that system. Treasury Direct, which handles all purchases of government securities by individuals in book-entry form, is managed in Philadelphia with local operations in each District. Its expansion permits an offsetting decrease in the operation that handles definitive securities—“other Treasury issues”—for which staff is decreasing 52 ANP and expenses \$1.6 million.

Besides Treasury Direct, the increase in centrally provided Treasury services reflects three programs in the Cleveland District. First, Cleveland is continuing to develop the Public Account-

ing and Reporting System, which will increase costs \$290,000 in 1988 and require an expansion in staff of 13 ANP. Second, the Treasury has designated the Pittsburgh Branch to centralize the inscription of bonds by issuing agents and to eliminate the need for the consignment of savings bonds. This program will increase costs \$213,000 in 1988 and add 9 ANP. Third, the Pittsburgh Branch will explore the use of the Federal Reserve’s high-speed check sorting equipment to process savings bonds. This program will require \$208,000 and 6 ANP in 1988.

Consolidation of operations in the savings bond service is expected in four Districts and consolidation of definitive safekeeping in one District. These efforts are expected to reduce staff levels. About half of the Districts have budgeted funds for a new tax and loan accounting system that was developed by one Bank for the U.S. Treasury under voluntary cost-sharing arrangements.

## Objects of Expense

The expenses of the Federal Reserve Banks are shown by personnel and nonpersonnel objects in table 3.10.

Personnel expenses consist of salaries for officers and employees, other expenses to compensate personnel, and retirement and other benefits. Total personnel costs account for 62 percent of total Federal Reserve expenses and are expected to increase \$34.1 million, or 4.6 percent, in 1988.

Salaries and other personnel expenses account for nearly 52 percent of the Banks’ budgeted expenses and are expected to increase \$24.4 million, or 3.9 percent, in 1988. Salaries are expected to increase 4.5 percent, while other personnel expenses are expected to decline 20.7 percent. Merit pay

**Table 3.10**  
**Operating Expenses of the Federal Reserve Banks, by Object, 1986-88**

Thousands of dollars, except as noted

Object	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
<b>PERSONNEL</b>					
Officers' salaries .....	56,168	59,704	62,272	6.3	4.3
Employees' salaries .....	523,309	547,203	571,833	4.6	4.5
Other personnel .....	16,693	13,738	10,896	-17.7	-20.7
Retirement and benefits .....	133,360	121,080	130,804	-9.2	8.0
<b>Total personnel .....</b>	<b>729,531</b>	<b>741,724</b>	<b>775,805</b>	<b>1.7</b>	<b>4.6</b>
<b>NONPERSONNEL</b>					
<i>Equipment</i>					
Purchases .....	3,096	3,964	2,820	28.0	-28.9
Rentals .....	40,665	34,434	27,416	-15.3	-20.4
Depreciation .....	68,000	76,578	82,874	12.6	8.2
Repairs and maintenance .....	38,998	43,604	49,510	11.8	13.5
<b>Total equipment .....</b>	<b>150,760</b>	<b>158,579</b>	<b>162,621</b>	<b>5.2</b>	<b>2.5</b>
<i>Buildings</i>					
Insurance .....	610	887	917	45.3	3.4
Taxes on Real Estate .....	22,213	21,871	24,666	-1.5	12.8
Property Depreciation .....	23,549	26,466	29,525	12.4	11.6
Utilities .....	22,809	23,047	24,127	1.0	4.7
Rent .....	14,976	17,461	20,814	16.6	19.2
Other .....	13,607	18,499	17,948	36.0	-3.0
<b>Total buildings .....</b>	<b>97,765</b>	<b>108,231</b>	<b>117,997</b>	<b>10.7</b>	<b>9.0</b>
<i>Shipping</i>					
Postage .....	13,464	12,337	13,275	-8.4	7.6
Other .....	68,416	69,845	69,351	2.1	-7
<b>Total shipping .....</b>	<b>81,880</b>	<b>82,181</b>	<b>82,626</b>	<b>.4</b>	<b>.5</b>
<i>Other</i>					
Supplies .....	46,005	46,725	47,952	1.6	2.6
Travel .....	19,775	22,086	22,965	11.7	4.0
Communications .....	15,255	12,570	12,602	-17.6	.3
Fees .....	11,207	11,223	9,577	.2	-14.7
Other .....	9,114	10,951	12,956	20.2	18.3
<b>Total other .....</b>	<b>101,356</b>	<b>103,555</b>	<b>106,052</b>	<b>2.2</b>	<b>2.4</b>
<b>Total nonpersonnel .....</b>	<b>431,760</b>	<b>452,547</b>	<b>469,297</b>	<b>4.8</b>	<b>3.7</b>
<b>Total .....</b>	<b>1,161,290</b>	<b>1,194,271</b>	<b>1,245,102</b>	<b>2.8</b>	<b>4.3</b>

increases of 4.8 percent are partially offset by reductions in overtime expenses. Salary increases for promotions, adjustments in structure, and reclassifications are offset by an increase in turnover (the replacement of a departing employee by one with a lower salary) and by an increase in the time a position remains vacant. The decline in other personnel expenses reflects primarily the decline in the use of computer programmers on contract.

Each Federal Reserve office bases its salary structure for staff members

other than officers on annual surveys of compensation offered by major employers in its community. Nationwide surveys are used to adjust the structure of officers' salaries.

Expenses for retirement and other benefits, which account for 10 percent of the Banks' budgeted expenses, are projected to increase \$9.7 million, or 8.0 percent, in 1988. This increase reflects higher costs for hospital, medical, and dental insurance, along with the effect of large claims in several Districts; an increase in the tax rate for social security; an increase in benefits,

reflecting payments to employees accepting early retirement; and resumption of normal group life insurance premiums (the Districts did not have to pay any in 1987).

Nonpersonnel expenses account for 38 percent of the Banks' expenses and are projected to increase 3.7 percent. Equipment accounts for 13 percent of the Banks' expenses and are budgeted to increase 2.5 percent. Developments in priced services are responsible for the rise in equipment costs: initiatives to meet the changing needs and demands of check collection; efforts to standardize automation and communication systems in response to the consolidation of financial institutions; progress toward encrypting communication links for various users of priced services; and continued work to expand and upgrade electronic networks that provide information to financial institutions.

Building expenses, which account for 9 percent of total expenses, are expected to increase 9.0 percent in 1988. Building renovations and repairs at Chicago, New York, Cleveland, and Dallas contribute to increases in depreciation, taxes on real estate, and utility expenses. Rental expenses are 19.2 percent higher, primarily because of the \$2.8 million increase at New York. These increases will be partially offset by a decline in other building costs, which were swollen in 1987 in the majority of Districts by one-time, outside contractual expenses.

Shipping costs, which account for nearly 7 percent of 1988 budgeted expenses, will increase only 0.5 percent, as savings from a renegotiated contract for interdistrict transportation will offset an anticipated increase in postal rates.

Other nonpersonnel expenses will rise only 2.4 percent. Increases in expenditures for travel—primarily for

supervision and regulation—and for supplies, will be offset by projected declines in fees.

### Capital Outlays

Capital outlays of the Reserve Banks are budgeted at \$225.9 million, an increase of \$66.0 million, or 41.3 percent, from the 1987 level (table 3.11). Capital budgets continue to be dominated by outlays for data processing and data communications equipment and for buildings.

Outlays for data processing and data communication equipment total \$92.8 million in 1988, approximately 41 percent of the total capital budget. This equipment includes new mainframes or upgrades for Dallas (\$6.4 million), San Francisco (\$4.8 million), the Los Angeles Branch (\$4.3 million), Atlanta (\$2.8 million), Richmond (\$1.8 million), Chicago (\$1.4 million), and St. Louis (\$1.4 million). New or upgraded check processing equipment is expected at Chicago (\$8.2 million), Cleveland (\$5.2 million), Atlanta (\$2.8 million), and Richmond (\$2.5 million). Outlays for computer peripheral equipment are planned at New York (\$4.1 million), Cleveland (\$3.2 million), Chicago (\$2.6 million), and Richmond (\$2.4 million). Other major outlays result from office automation projects for New York (\$3.6 million) and Minneapolis (\$1.3 million).

Building outlays total \$86.2 million in 1988, about 38 percent of the total capital budget. The bulk of these outlays are in additions and improvements at Chicago (\$35.0 million) and Atlanta (\$2.6 million). New buildings are budgeted for Charlotte (\$18.5 million) and Helena (\$500,000). The initial phases of two building projects are budgeted for 1988: a remote operations center in New York (\$1.5 million, exclusive of land) and fees to

Table 3.11

## Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1986-88

Thousands of dollars, except as noted

Class	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Data processing and data communications equipment .....	68,246	54,892	92,833	- 19.6	69.1
Furniture and other equipment .....	19,623	20,151	24,435	2.7	21.2
Land and other real estate .....	432	6,475	7,137	1,398.8	10.2
Buildings .....	69,930	67,844	86,209	- 3.0	27.1
Building machinery and equipment .....	3,697	7,814	12,296	111.4	57.4
Leasehold improvements .....	3,389	2,748	3,008	- 18.9	9.4
<b>Total .....</b>	<b>165,317</b>	<b>159,924</b>	<b>225,918</b>	<b>- 3.3</b>	<b>41.3</b>

consider alternative space at Cleveland (\$1.0 million). Asbestos abatement continues in 1988 at Chicago (\$1.8 million), St. Louis (\$500,000), San Francisco (\$400,000), and Dallas (\$400,000). Minneapolis has an extensive asbestos problem, but project costs for removal were not available.

Purchases of furniture and other equipment are budgeted for \$24.4 million. Major outlays are planned to coincide with building improvements at Atlanta (\$3.4 million) and Chicago (\$1.2 million). New York continues its currency containerization project at a cost of \$1.2 million.

Capital outlays for building machinery and equipment are budgeted at \$12.3 million. Atlanta's budget of \$900,000 is related to its building addition. Other major items are new or upgraded power-smoothing equipment or uninterruptible power systems at Chicago (\$1.8 million), Boston (\$1.5 million), Philadelphia (\$1.3 million), Cleveland (\$800,000), Atlanta (\$400,000), San Francisco (\$400,000), and Dallas (\$100,000).

Purchases of land and other real estate are budgeted at \$7.0 million, allocated mostly to purchase land for the remote operations center at New York.

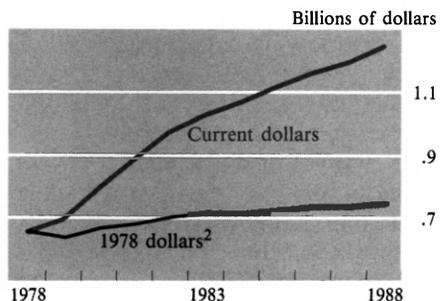
Leasehold improvements total \$3.0

million, primarily for the Cranford regional check processing center in the New York District. Most of the New York Bank's check processing will be relocated there as the initial step in the Bank's strategy to open its remote operations center.

### Trends in Expenses and Employment

For the 10 years ending in 1988, the expenses of the Reserve Banks have increased 6.6 percent per year on average in current dollars and 1.3 percent per year in 1978 dollars measured with the GNP implicit price deflator (chart 3.1). Increases were

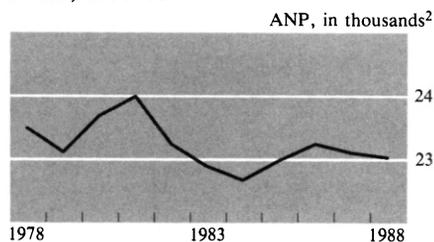
Chart 3.1  
Operating Expenses of the Federal Reserve Banks, 1978-88<sup>1</sup>



1. For 1987, estimate; for 1988, budget.
2. Calculated with the GNP implicit price deflator.

Chart 3.2

Employment at the Federal Reserve Banks, 1978–88<sup>1</sup>



1. For 1987, estimate; for 1988, budget.
2. See text note 2 for definition of ANP.

largest during the early 1980s, when the Banks began implementing the requirements of the Monetary Control Act (MCA) and the high rate of inflation drove up wages. From 1980 to 1983, normal expenses increased an average of 9.1 percent per year in current dollars, while the rate of inflation averaged 6.6 percent. Since then, a much lower trend has been evident, with nominal expenses rising an average of 3.9 per year, and prices an average of 3.0 percent.

Over the last decade the number of employees at the Reserve Banks has declined 448 ANP, or 1.9 percent (chart 3.2). In 1974, employment at the Reserve Banks peaked at 26,567 ANP; it declined a total of 3,624, or 13.6 percent, over the next five years under a Systemwide program to increase productivity. Employment increased in 1980 and 1981 because of the MCA; however, over the next three years, employment declined a total of 1,320, or 5.5 percent, reaching 22,669 in 1984, its lowest level in the 1978–88 period. Employment rose again in 1985 and 1986 as bank examiners were added and actions were taken to handle increasing volume. Employment is expected to decline 136 ANP in 1987, in part because of budget restraint in the spirit of the Gramm–Rudman–

Table 3.12

Changes from 1987 to 1988 in Volumes and Unit Costs of Federal Reserve Bank Services

Percent

Service	Volume	Unit cost
Payments .....	4.5	.5
Commercial checks .....	2.7	.2
Automated clearinghouse .....	16.6	1.1
Funds transfers .....	6.1	1.9
Other .....	1.7	1.6
Cash .....	5.0	.7
Currency .....	6.3	.1
Coin .....	-2.3	4.8
Fiscal agency .....	-3.1	6.9
Savings bonds .....	-.7	3.8
Other Treasury issues .....	-27.5	24.7
Other fiscal agency .....	-.3	4.9
Treasury Direct .....	33.6	.3
Securities and noncash services .....	6.0	4.3
<b>All .....</b>	<b>3.7</b>	<b>1.5</b>

Hollings legislation. In 1988, employment is budgeted to decline 74 ANP, as measures to control costs, mostly in support and overhead, offset the added staff needed for supervision and regulation and the growth in the number of items handled.

### Volumes and Unit Costs

Total volume for all measured services of the Reserve Banks in 1988 is budgeted to increase 3.7 percent over 1987, and unit costs are expected to increase 1.5 percent (table 3.12). The rise in unit costs is derived mainly from fiscal agency services, where volumes are declining relative to costs, and from securities services, where expenses are increasing relative to volumes. Unit costs in the two largest operations, check and currency, are expected to rise only slightly. On average, over the five years from 1983 to 1988, total volume increased 4.3 percent per year, while unit costs in current dollars decreased 0.1 percent per year.

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*Part II*

*Special Analysis*

## Chapter 4

# *Review of Fiscal Agency Services*

As fiscal agents of the United States, the Federal Reserve Banks provide a variety of services to the public and to depository institutions on behalf of federal agencies. The U.S. Treasury, in fact, is the single largest user of Federal Reserve Bank services. In 1987, the Reserve Banks spent an estimated \$206 million, or 17 percent of total operating expenses, in providing fiscal services to government agencies and the public.<sup>1</sup> They expect to spend \$217 million in 1988. The System's legal mandate for providing these services is different from the mandate in the Monetary Control Act, which guides the provision of Federal Reserve Bank services to depository institutions. This review looks at the mandate for fiscal agency services, the scope of services provided to government agencies, and the reimbursement to the System for those services.

### **Historical Background**

The original Federal Reserve Act, signed into law in 1913, did not give the Federal Reserve Banks a role in providing fiscal services to government agen-

cies. This function was added two years later at the request of Secretary of the Treasury W.G. McAdoo, who on November 24, 1915, appointed the Federal Reserve Banks as "fiscal agents" of the United States.<sup>2</sup> Almost immediately, U.S. government funds on deposit with national banks were transferred to the Treasury's account at each Federal Reserve Bank; these accounts established the Reserve Banks as an integral part of the mechanism by which the U.S. Treasury collected and disbursed funds on behalf of the federal government.

Services for the Treasury and other government agencies were added over time. For example, the Banks' securities services—including distribution, redemption, and safekeeping—began in May 1917 with the first Liberty Bond offering to finance the U.S. effort in World War I. After the war, the government's growing need to borrow from the private sector compelled the Treasury to seek an alternative to its limited network of Subtreasuries.<sup>3</sup> When the Subtreasuries closed in 1921, the functions related to financing the public debt were transferred to the Reserve Banks. The role of Reserve Banks as fiscal agents expanded when Series E savings bonds were introduced in 1941 to help finance World War II. Today, the savings bond operation is the largest of the

1. The costs the Reserve Banks incur in providing fiscal agency services are divided between two operational areas. The area of services to the U.S. Treasury and other government agencies accounted for an estimated \$136 million in 1987. The remaining \$70 million pertains to certain fiscal services, such as government funds transfers and automated clearing-house payments, Treasury book-entry services, and check processing, that are counted under the area of services to financial institutions and the public. See chap. 3 and appendix A for details about operational areas of the Reserve Banks.

2. A fiscal agent is a person or entity authorized by another person or entity to act on its behalf in financial matters.

3. The system of Subtreasuries provided access to depository institutions in regional money centers.

fiscal agency services provided by the Reserve Banks.

When the Reserve Banks began to provide securities services to the Treasury in 1917, Secretary McAdoo initiated the reimbursement of the Banks for the cost of the services. In a wire to each of the Banks on May 1, 1917, he stated that "it will be understood that the Federal reserve banks will be reimbursed for all direct expenditures connected with this work and approved by the Treasury Department." This directive governed Treasury practice on reimbursement until 1920, when the Federal Reserve Act was amended to lay a more formal legal basis for fiscal

agency. The amendment allowed the secretary of the Treasury to require fiscal services from the Reserve Banks but declared that compensation to the Banks, while possible and legal, was not mandatory.<sup>4</sup>

4. Authority for reimbursement to fiscal agents is provided by 31 USC 3302(f) as follows: "(f) When authorized by the Secretary, an official or agent of the Government having custody or possession of public money, or performing other fiscal agent services, may be allowed necessary expenses to collect, keep, transfer, and pay out public money and to perform those services. However, money appropriated for those expenses may not be used to employ or pay officers and employees of the Government."

Table 4.1

Expenses and Reimbursements for Fiscal Agency Services Provided to the U.S. Treasury by the Federal Reserve Banks, Calendar Years 1985-88

Millions of dollars, except as noted

Service	1985 actual	1986 actual	1987 estimate	1988 budget
Savings bonds .....	37.7	40.9	39.7	40.4
Marketable securities .....	31.1	28.2	21.1	19.6
Commercial book entry .....	3.5	14.0	16.2	18.1
Interest coupons .....	2.4	2.1	1.8	1.8
Treasury Direct .....	7.5 <sup>1</sup>	13.0 <sup>1</sup>	19.6	24.3
Accounts processing .....	20.0	20.6	20.3	21.8
Funds transfers .....	.3	.3	.3	.3
Automated clearinghouse .....	29.2	30.3	31.2	32.7
Collections .....	2.5	2.7	3.2	3.4
Check processing .....	15.0	15.6	15.9	16.0
Other .....	6.2	5.8	5.4	5.3
<b>Total<sup>2</sup></b> .....	<b>155.4</b>	<b>173.5</b>	<b>174.7</b>	<b>183.7</b>
Reimbursement from Treasury .....	52.2	31.3	42.0	43.0
Unreimbursed expenses .....	103.2	142.2	132.7	140.7
Percent unreimbursed .....	66.4	82.0	76.0	76.6

1. Comprises mostly development expenses. Treasury Direct was developed for the Treasury by the Federal Reserve Bank of Philadelphia, which operates the system. Implemented in July 1986, the system enables the Treasury to eliminate definitive (physical) securities by maintaining book-entry (electronic) accounts for individual investors. Over time, the costs of

the marketable securities service should decline as outstanding definitive issues are retired or redeemed and new issues placed on the Treasury Direct system in book-entry form.

2. Not all of these expenses are currently claimed for reimbursement.

Table 4.2

Description of Fiscal Agency Services Provided by the Federal Reserve Banks to the U.S. Treasury

<p><b>BUREAU OF THE PUBLIC DEBT</b></p> <p><i>Marketable securities/special issues</i>                  Maintain stocks of unissued Treasury securities                  Provide Treasury securities information                  Process applications and maintenance transactions for Treasury bills, notes, and bonds                  Conduct intermediate exchange transactions                  Redeem eligible securities                  Pay interest on book-entry securities                  Pay matured coupons on obligations as authorized                  Pay principal and interest on state and local government securities                  Account for all Treasury securities and all public debt receipts and expenditures                  Process lost or stolen claims for Treasury securities                  Provide information returns to IRS on matured Treasury bearer securities and coupons                  Prepare Treasury investor classification reports                  Process telegraphic transfers of securities                  Maintain accounts reflecting securities held in book-entry form                  Conduct auctions for marketable securities</p> <p><i>Savings bonds</i>                  Maintain stocks of unissued savings bonds and notes                  Instruct issuing and paying agents and advise public                  Qualify issuing and paying agents                  Process applications or payments for individual or payroll bonds                  Process appropriate claims                  Reissue savings bonds                  Redeem savings bonds submitted directly by individuals or by nonauthorized paying agents                  Account for registration stubs for sales and paid bonds and ship                  Issue Treasury checks                  Confirm and reconcile agents' on-hand balance of unissued stock                  Process adjustments                  Duplicate and distribute redemption tables on magnetic tape                  Process series H and HH (savings bonds) checks and ACH interest payments for the Parkersburg office                  Provide statistical information on sales</p>	<p>Maintain Treasury's general account                  Verify, account for, and destroy unfit currency                  Prepare investor classification reports and forward them to the Treasury                  Process telegraphic transfers of securities (CPD transfers)                  Maintain accounts reflecting securities held on book-entry form                  Process government checks (IRS, Bureau of the Mint)                  Refund reclamation (IRS)                  Government deposits (IRS)</p> <p><b>OFFICE OF THE ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS</b></p> <p><i>Exchange Stabilization Fund</i>                  Conduct foreign exchange or investment transactions                  Maintain foreign currency and investment accounts                  Invest any dollar proceeds of foreign exchange transactions                  Provide information and analysis</p> <p><i>Treasury Foreign Currency Reports and Treasury International Capital Reports</i>                  Receive reports on foreign currency and on claims and liabilities of foreigners from banks and nonbanks and review for accuracy                  Consolidate reports for all Districts                  Provide data services, including programming support for computer time-sharing</p> <p><b>OFFICE OF THE ASSISTANT SECRETARY FOR ENFORCEMENT AND OPERATIONS—FOREIGN ASSET CONTROL</b></p> <p>Process applications for licenses to conduct business with certain regulated countries or from individuals in those countries to conduct business in the United States and forward to Treasury for review                  Advise applicants of acceptance or rejection</p>
<p><b>FINANCIAL MANAGEMENT SERVICE</b></p> <p>Process federal tax deposits                  Maintain Treasury tax and loan accounts                  Hold collateral for public funds                  Process government checks and deposits                  Process electronic funds transfers                  Process recurring federal payments                  Maintain letter of credit                  Execute securities purchase and sale at Treasury's request                  Provide investment functions for government and trust fund accounts</p>	<p><b>BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS</b></p> <p>Safekeeping of valuables seized in investigations                  Safekeeping of securities deposited in lieu of surety bonds                  Supply currency for investigation</p> <p><b>U.S. CUSTOMS SERVICE</b></p> <p>Safekeeping of securities                  Certifying foreign exchange rates pursuant to the Tariff Act of 1930                  Transit check processing                  Safekeeping of confiscated items                  Check deposits                  Check collection</p>

Table 4.3

Fiscal Agency Services Provided to Non-Treasury Principals  
by the Federal Reserve Banks, by Receiving Entity<sup>1</sup>

Entity	Securities activity				
	Issuing	Servicing	Redeeming	Account processing	Payment of registered interest
African development Bank .....	x	x	x	x	x
Asian Development Bank .....	x	x	x	x	x
Department of Agriculture					
Commodity Credit Corporation .....	...	...	...	x	...
Farm Credit Administration .....	x	x	x	x	x
Farmers Home Administration .....	...	x	x	x	x
Food and Nutrition Service .....	...	...	...	x	...
Department of Housing and Urban Development, Government					
National Mortgage Association .....	...	x	x	x	x
Federal Home Loan Bank Board .....	x	x	x	x	x
Federal Home Loan Mortgage Corporation .....	x	x	x	x	x
Federal National Mortgage Association .....	x	x	x	x	...
Inter-American Development Bank .....	x	x	x	x	x
International Bank for Reconstruction and Development .....	x	x	x	x	x
Small Business Administration .....	...	x	x	x	x
Student Loan Marketing Association .....	...	x	x	x	x
U.S. Postal Service .....	...	x	x	x	x
Washington Metropolitan Area Transit Authority .....	...	x	x	x	x

For notes, see end of table.

## Fiscal Agency Services

In 1987, services to the U.S. Treasury accounted for 85 percent, or \$175 million, of the fiscal agency costs the Reserve Banks incurred (table 4.1). The other 15 percent, or \$31 million, was spent on fiscal services to other domestic public agencies and to international agencies in which the U.S. participates. For 1988, the Banks have budgeted \$184 million for Treasury services and \$33 million for services to the other organizations.

Three units account for most of the services the Banks perform for the Treasury: the Bureau of the Public Debt, the Financial Management Service, and the Office of the Assistant Secretary for International Affairs. The Office of the Assistant Secretary for Enforcement and Operations—

Foreign Asset Control, the Bureau of Alcohol, Tobacco, and Firearms, and the Customs Service also receive fiscal services (table 4.2).

For the Bureau of the Public Debt, the Reserve Banks issue, service, and redeem Treasury securities and savings bonds. These activities were the single largest component of the fiscal services the Reserve Banks provided in 1987, accounting for \$98.4 million, or nearly half, of the fiscal agency expenses in that year.

The Financial Management Service uses the Reserve Banks to process federal tax deposits, Treasury tax and loan accounts, government checks, and automated clearinghouse payments, and to maintain the Treasury's general account. These services cost the Reserve Banks \$75.7 million in 1987.

Table 4.3—Continued

Entity	Securities activity			Coupon processing	Miscellaneous <sup>2</sup>
	IRS information reporting	Payment of book-entry interest	Securities safekeeping		
African Development Bank .....	...	X	...	...	...
Asian Development Bank .....	X	...	X	...	...
Department of Agriculture					
Commodity Credit Corporation .....	...	...	...	...	a
Farm Credit Administration .....	X	...	...	X	...
Farmers Home Administration .....	X	...	...	X	...
Food and Nutrition Service .....	...	...	...	...	b
Department of Housing and Urban Development, Government					
National Mortgage Association .....	X	...	X	X	...
Federal Home Loan Bank Board .....	X	X	X	X	...
Federal Home Loan Mortgage Corporation .....	X	...	X	X	...
Federal National Mortgage Association ..	X	...	X	X	...
Inter-American Development Bank .....	X	X	...	X	...
International Bank for Reconstruction and Development .....	X	X	X	X	...
Small Business Administration .....	X	X	...	...	...
Student Loan Marketing Association .....	X	...	...	...	...
U.S. Postal Service .....	X	X	...	...	c
Washington Metropolitan Area Transit Authority .....	X	X	...	...	...

1. These services are performed by most Federal Reserve Banks. Principals receive their fiscal agency services directly from a Reserve Bank or Branch.

2. Legend:

- a. Processing receipts and disbursements.
- b. Processing food coupons.
- c. Processing postal money orders.

The Reserve Banks serve the Office of the Assistant Secretary for International Affairs in connection with the exchange stabilization fund, foreign currency reports, foreign capital reports, and foreign asset controls. Reserve Bank expenses for these activities were \$1.1 million in 1987.

The level and scope of fiscal agency services to the Treasury increased significantly in 1986, reflecting its need both for changes in existing service and for new services.<sup>5</sup> Most initiatives, including those requiring substantial resources or involving policy

issues, must be approved by the Board of Governors even though the secretary of the Treasury has the authority to direct the Federal Reserve Banks to provide service.

In general, the Reserve Banks provide the following fiscal services to the U.S. Treasury and approximately 30 other public organizations:

#### *Securities activities*

**Issuing:** The Banks announce original issues of agency securities; respond to public inquiries; receive subscriptions, allotments, and payments; inscribe registered securities; issue adjustment checks; and send securities to the customer.

**Servicing:** In the period preceding the maturity of an issue, Banks maintain unissued stock and exchange, convert, and transfer bearer, regis-

5. Requests for new services and projects develop through multilevel contacts among staff members of the Federal Reserve and of the Treasury. Operations personnel routinely exchange ideas and resolve problems during visits and through task forces and committees.

Table 4.4

Fiscal Agency Services Provided to Nonprincipals  
by the Federal Reserve Banks, by Receiving Entity and Provider<sup>1</sup>

Entity	Federal Reserve Bank or Branch <sup>2</sup>						
	Boston	New York	Phila- delphia	Pitts- burgh	Rich- mond	Chicago	St. Louis
Department of Agriculture, Forest Service .....	...	...	...	...	...	...	...
Department of Defense .....	...	...	...	...	...	...	h
Department of Education .....	...	...	...	...	a,c	...	...
Department of Health and Human Services .....	...	...	...	...	...	...	...
Department of Housing and Urban Development .....	d	...	...	...	a,c	...	...
Department of Interior Bureau of Indian Affairs .....	...	...	...	...	...	...	...
Bureau of Land Management .....	...	...	...	...	...	...	...
Department of Justice, Immigration and Naturalization Service .....	...	...	...	...	a	...	...
Department of Labor, Workman's Compensation .....	a	a	a	...	a	...	...
Department of Transportation, U.S. Coast Guard .....	...	...	...	...	...	...	h
District of Columbia Armory Board .....	d	d	...	...	...	...	...
Export-Import Bank .....	d	...	...	...	...	...	...
Federal Deposit Insurance Corporation ..	e	a	...	...	...	e,b	...
International Finance Corporation .....	...	i	...	...	...	...	...
United States Courts .....	a,g	...	...	a	a	...	...
Urban Mass Transportation Administration .....	...	...	...	...	a,c	...	...

1. Nonprincipals usually receive their fiscal agency services indirectly from a Reserve Bank or Branch through a depository institution.

2. Legend:

- a. Securities safekeeping.
- b. Securities safekeeping for instructions in receivership; charges billed directly to institutions.

c. Processing accounts, including receipt and processing of various forms of payment.

d. Redeeming maturing securities and coupons.

e. Processing FDIC receivership drafts.

f. Buying and selling securities.

g. Maintaining book-entry accounts.

h. Cashing large government checks for payrolls.

i. Maintaining accounts.

j. Redeeming maturing securities.

tered, interim, and book-entry forms of the issue.

**Redeeming:** The Banks verify the securities presented for redemption in bearer, registered, and book-entry form; calculate and pay the interest; and ship the redeemed definitive securities to the appropriate agency. For some agencies, this service also includes processing semiannual payments of interest on book-entry securities and payment of interest on registered securities.

**Processing accounts:** The Banks make entries, analyze the accounts, and prepare statements, reports, and transcripts.

**Reporting IRS information:** The

Banks report to the Internal Revenue Service on form 1099 all interest paid, in conformance with the Tax Equity and Fiscal Responsibility Act of 1982 and the Interest and Dividend Tax Compliance Act of 1983.

**Safekeeping:** The Banks maintain and update balances for safekeeping accounts of definitive and book-entry securities; prepare and distribute periodic statements; make switches, withdrawals, and deliveries; detach maturing coupons and withdraw maturing securities for presentment to owners or paying agents; and effect secondary market transfers of book-entry securities. This service also includes handling purchase and sale orders in the second-

Table 4.4—Continued

Entity	Federal Reserve Bank or Branch <sup>2</sup>					
	Minneapolis	Kansas City	Denver	Dallas	San Francisco	Portland
Department of Agriculture, Forest Service .....	a	...	a	...	a	a
Department of Defense .....	...	...	...	...	...	...
Department of Education .....	...	...	...	...	...	...
Department of Health and Human Services .....	...	...	...	...	a	...
Department of Housing and Urban Development .....	...	...	...	...	...	...
Department of Interior Bureau of Indian Affairs .....	...	...	...	...	a	...
Bureau of Land Management .....	...	...	a	...	...	...
Department of Justice, Immigration and Naturalization Service .....	a	...	...	a	a	...
Department of Labor, Workman's Compensation .....	...	...	...	...	a	...
Department of Transportation, U.S. Coast Guard .....	...	...	...	...	...	...
District of Columbia Armory Board .....	...	...	...	...	...	...
Export-Import Bank .....	...	d	...	...	d	...
Federal Deposit Insurance Corporation .....	...	a,f	...	f,b	a	...
International Finance Corporation .....	...	...	...	...	...	...
United States Courts .....	...	...	...	...	...	...
Urban Mass Transportation Administration .....	...	...	...	...	...	...

ary market for Treasury and agency securities.

#### *Processing coupons*

The Banks verify, sort, and balance the securities coupons; make payment; cancel and ship the redeemed coupons for destruction by the appropriate agent; maintain accounting records; and prepare the forms for withholding of tax on nonresident aliens.

#### *Processing postal money orders*

The Banks receive and process money orders and accompanying cash letters from depositors, make adjustments, and handle return items.

#### *Processing food coupons*

On behalf of the Department of Agriculture, the Banks receive the food coupons from depository institutions, credit their accounts, verify the deposits, and destroy the coupons.

Apart from the Treasury, some of the entities receiving these services are “principals”—that is, they receive fiscal services directly from a Reserve Bank or Branch (table 4.3). “Nonprincipals” usually receive their fiscal agency services indirectly, via depository institutions (table 4.4). In 1987, the Banks spent \$31 million on fiscal services apart from those to the Treasury, and they expect to spend \$33 million in 1988 (table 4.5).

Table 4.5

Expenses and Reimbursements for Fiscal Agency Services Provided to Principals and Nonprincipals by the Federal Reserve Banks, Calendar Years 1985-88<sup>1</sup>

Millions of dollars

Service	1985 actual	1986 actual	1987 estimate <sup>1</sup>	1988 budget
Securities activity .....	7	7	10	11
Safekeeping securities services .....	6	6	5	5
Coupon processing .....	1	1	1	1
Food coupon processing .....	12	12	12	13
Postal money-order processing .....	3	3	3	3
<b>Total</b> .....	<b>29</b>	<b>29</b>	<b>31</b>	<b>33</b>
Reimbursement .....	29	29	31	33
Unreimbursed expenses .....	0	0	0	0

1. Excludes services to the U.S. Treasury. See tables 4.3 and 4.4 for the lists of principals and nonprincipals and a more detailed list of services.

### Reimbursement for Fiscal Services

As noted above, the Treasury and other agencies receiving fiscal services from the Reserve Banks are permitted by law to reimburse the Banks. Historically, the other agencies have made full reimbursement (table 4.5). Although the Treasury has agreed in principle to make reimbursement, it has not been fully able to do so in recent years because it has not obtained adequate funding from the Congress. Except for the last several years, compensation from the Treasury has ranged between 40 and 50 percent of Reserve Bank expenses; recently, it has fallen substantially (table 4.6). The payment from the Treasury for fiscal-year 1988 is expected to be \$43 million, or about 24 percent of the Reserve Banks' expenses for services to the Treasury.

Table 4.6

Expenses and Reimbursements for Fiscal Agency Services Provided to the U.S. Treasury by the Federal Reserve Banks, Fiscal Years 1978-88<sup>1</sup>

Millions of dollars, except as noted

Year	Expenses	Reim- bursement	Percent reimbursed
1978 .....	82	38	46
1979 .....	85	38	45
1980 .....	94	45	48
1981 .....	96	46	48
1982 .....	116	48	41
1983 .....	131	52	40
1984 .....	137	61	45
1985 .....	157	59	38
1986 .....	171	30	18
1987 estimate ..	174	41	24
1988 budget....	177	43	24

1. Data not available for earlier years.

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# *Appendixes*

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*Appendix A**Mission and Operational Areas  
of the Federal Reserve System*

In their budgets the Federal Reserve Banks and the Board of Governors divide their activities into four major operational areas: monetary and economic policy, supervision and regulation of financial institutions, services to financial institutions and the public, and services to the U.S. Treasury and other government agencies.<sup>1</sup> This appendix describes each of these areas in detail.

**Monetary and Economic Policy**

The Federal Reserve contributes to the attainment of the nation's economic and financial goals through its ability to influence money and credit in the economy. The System has several tools to affect the availability and cost of the nation's money and credit: setting of reserve requirements; setting of the discount rate; and the primary tool of monetary policy, open market operations.

The seven-member Board of Governors sets reserve requirements, and it acts on requests from the Federal Reserve Banks to adjust the discount rate. The Federal Open Market Committee (FOMC) meets in Washington eight times per year, usually twice each business quarter, to set policies for

System open market operations; it comprises the Board, the President of the Federal Reserve Bank of New York, and, on a rotating basis, the presidents of four other Reserve Banks.

A vast amount of banking and financial data flows through the Reserve Banks to the Board, where it is compiled and made available to the public in weekly and monthly statistical releases on the monetary aggregates, interest rates, bank credit, exchange rates, and so on. The research staffs at the Board and the Reserve Banks use this information, along with data collected by other public and private institutions, to assess the state of the economy and the relationships between the financial markets and economic activity. Staff members provide background for the Board and each meeting of the FOMC by preparing detailed economic and financial analyses and projections for the domestic economy and international markets. In addition, they conduct longer-run economic studies of issues at the regional, national, and international levels.

**Supervision and Regulation**

Under the authority of the Federal Reserve Act and the Bank Holding Company Act of 1956 as amended, the Federal Reserve System plays a major role in the supervision and regulation of banks and bank holding companies.

The System conducts its oversight responsibilities through on-site examinations and inspections of state mem-

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1. Services to the U.S. Treasury and other government agencies is an operational area unique to the Federal Reserve Banks. The fourth operational area for the Board of Governors, System policy direction and oversight, provides resources for the supervision of Board and System programs and is discussed in chap. 2.

ber banks and bank holding companies; off-site surveillance and monitoring of financial institutions; review of applications for mergers, acquisitions, and changes in control; formal supervisory actions; and adoption and enforcement of regulations to carry out statutory directives. Under the Bank Holding Company Act, the Board is also responsible for assuring that all activities of bank holding companies are "closely related to banking and a proper incident thereto."

Beyond these activities, the Federal Reserve maintains continuous oversight of the banking industry to ensure the overall safety and soundness of the financial system. This broader responsibility is reflected in the System's presence in financial markets, through open market operations, and in the Federal Reserve's role as lender of last resort. The Monetary Control Act of 1980 expanded that role by extending the privilege of borrowing from the Federal Reserve to all depository institutions whose liabilities are subject to reserve requirements.<sup>2</sup>

The Board of Governors establishes System supervisory and regulatory policies; the Reserve Banks conduct on-site examinations and inspections, review various types of applications from banks and bank holding companies, and implement other supervisory programs. The System makes available to the public nonidentifying information it periodically collects on the condition and income of banks and bank holding companies.

Over the past two years, the System has intensified its supervision of state member banks and bank holding com-

panies in light of the rising number of failing and problem banks. In 1987, the Board and the Banks conducted 835 examinations of state member banks, an increase of 3.6 percent over 1986, and 2,633 inspections of bank holding companies and their subsidiaries, an increase of 12.5 percent over 1986. The System also reviewed 2,404 applications from foreign and domestic bank holding companies, an increase of 4.3 percent over 1986.

The Board enforces compliance by state member banks with the federal laws protecting consumers in their use of credit. In 1987, the System conducted examinations for such compliance at about 625 banks.

The Board's supervisory responsibilities also extend to foreign operations of U.S. banks and, under the International Banking Act, to U.S. operations of foreign banks.

### **Services to Financial Institutions and the Public**

The Federal Reserve System plays a central role in the nation's payments mechanism, which consists of many independent systems designed to move funds among financial institutions across the country. The Federal Reserve distributes currency and coin, processes checks for collection, operates electronic funds transfer networks, and provides for transfers of securities and for coupon collection.

Ensuring that the supply of currency and coin meets the public's demand for cash is the responsibility of the Federal Reserve. The Reserve Banks obtain currency and coin from the Bureau of Engraving and Printing and the Mint and distribute it to the public through depository institutions. The Banks use highly sophisticated equipment to count cash, identify counter-

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2. Depository institutions are commercial banks, savings banks, savings and loan associations, and credit unions.

feits, and destroy currency that is unfit for circulation. In 1987, the Reserve Banks paid out \$233.8 billion in currency and \$4.2 billion in coin and destroyed \$44.9 billion of unfit currency, an increase of roughly 90 percent over 1980 in all three activities.

The Reserve Banks collect and clear checks under the specific authority of the Federal Reserve Act of 1913. The Banks, Branches, and regional check-processing centers currently clear approximately 15 billion checks each year with an average daily value of more than \$40 billion. Most checks deposited with the Federal Reserve are collected on the day they are deposited or on the next business day.

The Federal Reserve also plays a central role in the nation's payments mechanism through its electronic wire transfer system, Fedwire. Depository institutions can draw on their reserves or clearing accounts at the Reserve Banks through Fedwire and transfer funds anywhere in the country within minutes. Approximately 5,800 depository institutions use Fedwire through direct computer connections with Federal Reserve Banks, and another 5,400 institutions use Fedwire through offline means such as telephone and telex. During 1987, approximately 53 million transfers valued at about \$152 trillion were sent over Fedwire, an average of \$2.9 million per transfer and \$605 billion per day.

The Federal Reserve allows participants in private clearing arrangements to exchange and settle transactions on a net basis through reserve or clearing-account balances. Users of this net settlement service include local check clearinghouse associations, credit card processors, automated teller machine networks, and national and regional funds transfer networks. In 1987, about 621,000 net settlement entries

were processed by the Reserve Banks.

Approximately 22,000 depository institutions use the automated clearinghouse, which makes recurring payments electronically instead of by check. The institutions use the ACH primarily to pay salaries and pensions and to make preauthorized bill payments, such as those for insurance premiums and mortgages. About 3,700 of the institutions using the ACH originate and receive transactions via electronic connections with the Federal Reserve; the others use machine-readable magnetic tapes. In 1987, the Reserve Banks processed about 1.1 billion ACH transactions; about 40 percent were governmental, largely disbursements of social security benefits and civilian and military pay.

The securities services provided by the Reserve Banks cover the handling of book-entry securities and definitive securities and the collection of coupons and miscellaneous items. The book-entry service, begun in 1968, enables holders of government agency securities to transfer them to other institutions throughout the country. The Reserve Banks maintained about 37,000 book-entry accounts in 1987 and processed 9.4 million security transfers.

In the definitive securities service, the Banks store physical securities ineligible for maintenance on the book-entry system. The Federal Reserve held approximately \$27 billion of such securities at the end of 1987.

In its noncash collection service, the Federal Reserve processes coupons, bonds, and miscellaneous items such as bankers acceptances and certain checks and drafts. Coupon collection, which accounts for approximately 95 percent of the transactions in this service, amounted to about 4.2 million coupons in 1986 and about 3.7 million in 1987.

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

As required by the Federal Reserve Act, the U.S. government uses the Federal Reserve as its bank. Through deposit accounts at the Federal Reserve Banks, the government issues its checks and payments and collects its receipts. The Reserve Banks also process wire transfers of funds and automated clearinghouse payments and give the Treasury daily statements of account activity.

Beyond these typical depository activities, the Federal Reserve Banks provide several unique services to the government. They monitor the tax

receipts deposited in the 15,600 tax and loan accounts maintained by depository institutions designated by the Treasury to perform this function; and they hold the collateral that those institutions pledge to support those deposits and transfer funds to the Treasury's account at its request. The Reserve Banks assist the Treasury in its financing of the public debt by issuing, servicing, and redeeming all marketable Treasury securities as well as all Treasury savings bonds and retirement plan bonds. In another unique fiscal service, the Reserve Banks redeem food coupons for the Department of Agriculture and destroy them.

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## *Appendix B*

### *Budget Processes*

This appendix describes the budget processes of the Board of Governors and the Reserve Banks and explains PACS, the planning and control system that the Banks use for accounting.

#### **The Budget and Control Process of the Board of Governors**

All levels of management at the Board take part in a planning, budget, and control process based on the calendar year. To ensure that all elements are coordinated and objectives are achieved, the Administrative Governor oversees the process under authority delegated by the Chairman.

The Board places expenses and employment in four operational areas: economic and monetary policy, supervision and regulation of financial institutions, services to financial institutions and the public, and System policy direction and oversight. Costs for data processing are charged as direct expenses to the four major areas according to usage. Expenses for other elements of support and overhead are allocated to the four areas in proportion to the shares of direct costs attributable to each area.

#### **The Budget Schedule**

Early each year, the Board's functional oversight committees discuss with the divisions under their purview plans for the following year and beyond. The Board's Controller and Staff Director for Management coordinate the oversight meetings and the Controller simultaneously prepares a budget estimate based on the current level of operation,

taking into account anticipated initiatives discussed at the meetings and other factors such as a general pay increase, changes in costs of employee benefits, and inflation.

Using this projection of expenses, the Controller prepares a proposed guideline for approval of the Board in June. The approved guideline is then used by the divisions for preparation of their budget proposals in the fall.

The objectives and budgets prepared by the divisions are reviewed with the Controller, the Staff Director for Management, and the oversight committees. After appropriate adjustments, the Controller in coordination with the Staff Director for Management prepares a consolidated budget for the Administrative Governor to present to the Board for final approval at an open meeting in December.

#### **Treatment of Capital Expenditures**

In 1985, the Board began capitalizing certain assets and depreciating their value over appropriate time periods instead of expensing them in their year of purchase. Capitalizing, which is in accordance with generally accepted accounting principles, more closely aligns the cost of capital assets with their periods of service and is consistent with the accounting practices followed by the Reserve Banks.

The capital budget is developed concurrently with the operating budget, following the same procedures. Although the capital budget is not covered by the guideline for the operating budget, depreciation costs asso-

ciated with capital assets fall under the guideline because they are an operating cost.

### Financial Monitoring and Control

Each division constructs quarterly operating plans, which managers monitor and review throughout the year. The Controller observes performance against budgeted targets and submits quarterly reports to the Board.

After a midyear review of current expenses with each division director, the Controller and the Staff Director for Management estimate expenses for the entire year and submit the estimate to the Board along with any recommendations for reallocations. The midyear review helps control current expenses and provides a baseline for analyzing budget requests. At the beginning of the next year, the Controller and the Staff Director for Management report to the Board on the previous year's performance against budget and operating goals.

### Assessments

The cash requirement for operations during the first half of the year, which is estimated after the Board adopts its budget, is approved by the Administrative Governor in early January. As the Federal Reserve Act provides, the required amount is raised by an assessment on each of the Reserve Banks in proportion to its capital stock and surplus. For the second half of the year, the cash requirement is estimated in June, and the second assessment is made in July. Funds are transferred quarterly to minimize cash balances held by the Board.

### The Budget and Control Process of the Federal Reserve Banks

The Federal Reserve Banks, like the Board, use a calendar-year process to set major goals and strategies, estimate resources needed to achieve the goals, and monitor operating results and financial performance.

### The Planning and Control System

The Planning and Control System is an accounting and budgeting system that affords a review of expenses, an expense audit trail, and expense accountability. Implemented by the Federal Reserve Banks in 1977, the PACS enables the Board of Governors to compare the financial and operating performance of the Reserve Banks.

All costs are grouped by major services, which are shown here under the four operational areas previously described and under support and overhead (see the accompanying list). The costs of support and overhead, in turn, are fully allocated to the four operational areas. The PACS offers a detailed analysis of all these services and activities, including productivity statistics (primarily unit costs and items per employee hour), "environmental" statistics (to clarify the differences among the Bank's operating environments), and "quality" statistics (to measure performance.) In short, the PACS serves as the fundamental cost accounting system for all the services provided by the Federal Reserve Banks, whether priced or nonpriced, special or routine.

Through periodic on-site reviews, the Board confirms that the Reserve Banks are complying with PACS instructions and also with System guidelines set by the Board. In addition, the General Accounting Office and an outside public accounting firm have

determined in independent examinations that the PACS is an appropriate and effective accounting mechanism for the Federal Reserve.

### The Budget Process

One year before the start of each budget year, staff members at the Board and at the Banks develop guidelines based on forecasts of changes in workload and productivity at the Banks. These guidelines, which are separate from those for the Board's divisions, are presented for Board action in the spring. The annual budget objective, which follows these guidelines, is used by the Reserve Banks in developing plans and budgets. To plan for priced services, the Banks also update each year a strategic statement for the next three years. In the spring, the Banks develop their own goals, objectives, and strategies and begin their budget process.

The management of each Bank department uses a zero-base budget procedure whenever possible, especially for travel and training. Senior Bank officials review departmental requests. The President and First Vice President decide which requests to recommend to the Bank's Board of Directors, which acts on the budget. In the fall the Board of Governors acts on fee schedules for priced services and on the Reserve Bank budgets.

### The Capital Budget Process

The Banks manage their capital expenditures through the planning, budgeting, and control process. In accordance with generally accepted accounting principles, the Banks include depreciation of capital assets in their expenses. All plans for large capital expenditures—whether for

buildings, automation equipment, furnishings, or land—receive a thorough review separate from the planning, budgeting, and control process. The Board of Governors must specifically approve acquisitions of mainframe computers and peripheral equipment costing more than a specified amount.

All proposals for capital acquisitions are reviewed by technical staff at the Board, who make recommendations to the Director of the Division of Federal Reserve Bank Operations or to the Board of Governors, depending on the level of approval required.

### Review at the Board of Governors

In the fall, Reserve Banks forward their budgets to the Board, where analysts review them and note Systemwide issues to be addressed during the budget review. They analyze the executive summary and the statement of objectives in each budget in light of the Bank's own trends, plans at the other Banks, the System budget objective, and the cost-recovery objectives for priced services. The Product Directors and the Pricing Policy Committee also examine the Reserve Bank budgets for priced services.<sup>1</sup> The Board's Committee on Federal Reserve Bank Activities evaluates the entire budget of each Reserve Bank in connection with its fall meetings with each Reserve Bank President and First Vice President.

1. The Product Directors are the First Vice Presidents at selected Reserve Banks with responsibility for day-to-day policy guidance over specific Systemwide priced services. The Pricing Policy Committee comprises one Governor, the Board's Staff Director for Federal Reserve Bank Activities, the Presidents of two Reserve Banks, and the First Vice Presidents of two other Reserve Banks.

## Board Approval

Following review by the Committee on Federal Reserve Bank Activities, all Bank budgets are sent to the Board of Governors for action at an open meeting in December.

## Federal Reserve Bank Services

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### OPERATIONAL AREAS

*Monetary and economic policy*  
Economic policy determination  
Open market trading

*Supervision and regulation*  
Supervision of District financial institutions  
Administration of laws and regulations related to banking  
Studies of banking and financial market structure

*Services to financial institutions and the public*  
Special cash service  
Currency  
Coin  
Transfer of account balances  
Automated clearinghouse  
Commercial check  
Other check  
Book-entry securities  
Definitive securities  
Loans to depository institutions and others  
Noncash collection  
Public programs  
Other

*Services to the U.S. Treasury and other government agencies*  
Savings bonds  
Other Treasury issues  
Centrally provided Treasury and agency services  
Government agency issues  
Other Treasury and government agency services  
Treasury and government coupons  
Food coupons  
Government accounts

### SUPPORT AND OVERHEAD

*Support*  
Data processing  
Centrally provided support  
Occupancy service  
Printing and supplies  
Centralized planning  
District projects

*Overhead*  
Administration  
System projects and contingency processing center  
Special projects  
Mail  
Legal  
General books and budget and expense control  
Files and records storage  
Personnel  
Purchasing  
Protection  
Motor vehicles  
Library  
Telephone  
Audit

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## *Appendix C*

# *Special Categories of System Expense*

This appendix discusses System expenses for priced services, capital assets, and currency.

### **Priced Services**

Under the Monetary Control Act of 1980, the Federal Reserve charges depository institutions for their use of certain Federal Reserve services at a price intended to recover the full costs of providing the services. Before 1980, the services the act covers had been offered without explicit charge and only to member banks.

As the act requires, the cost of providing these services includes all direct and indirect costs, the interest on items credited before actual collection (float), and the private sector adjustment factor (PSAF). The PSAF is the return on capital that would have been provided and the taxes that would have been paid had the services been furnished by a firm in the private sector. The market discipline imposed by including these imputed costs in the charges for Federal Reserve services ensures that expenses for priced services are no higher than necessary.

Most of the recoverable costs of priced services consist of the direct and indirect costs determined by the budget process for the Reserve Banks; hence, the Bank budgets are an integral part of the pricing exercise and have a major influence on the fee structure. To assist depository institutions in their planning to provide or use correspondent banking services, the Federal Reserve usually sets each year's prices only once, in the fourth quarter of the preceding year.

Fees for Federal Reserve services must be approved by the Product Director for each service, by the System Pricing Policy Committee, and ultimately by the Board of Governors.<sup>1</sup> The Board announces the rationale for the price of any service that recovers less than the full level of anticipated costs.<sup>2</sup>

The cost of float is estimated by applying the current federal funds rate to the level of float expected to be generated in the coming year. To estimate income taxes and the return on capital, tax and financing rates are derived from a model of the 25 largest U.S. bank holding companies; these rates are applied to the assets the Federal Reserve expects to use in operating priced services in the coming year. Imputed sales taxes are based on outlays for materials, supplies, and capital assets budgeted by the Reserve Banks.

The two other components of the PSAF are also derived from Reserve Bank budgets: the expenses of the Board of Governors associated with the provision of priced services and the expected assessment for FDIC insurance on clearing balances maintained with the Federal Reserve to settle transactions.

1. See appendix B, note 1, for a description of the position of Product Director and of the System Pricing Policy Committee.

2. An example is the pricing program announced to encourage use of the automated clearinghouse service, under which prices were established to recover an increasing percentage of full costs each year, reaching 100 percent in 1986.

## Calculation of the PSAF for 1988

The Board has approved a 1988 PSAF of \$76.2 million, an increase of 7.5 percent over the 1987 PSAF of \$70.9 million.

*Asset Base*

The assets to be used in providing priced services in 1988 have an estimated value of \$3,093.2 million (table C.1). The portion of these assets assumed to be financed through debt

and equity—largely bank premises, furniture, and equipment—totals \$417.2 million, an increase of 6 percent over 1987 (table C.2).<sup>3</sup>

*Cost of Capital and Taxes*

Mergers and changes in the relative asset sizes of bank holding companies

3. Short-term assets are assumed to be financed by short-term liabilities; long-term assets are assumed to be financed by a combination of equity and long-term debt.

Table C.1

Pro Forma Balance Sheet for Federal Reserve Priced Services, 1987–88<sup>1</sup>

Millions of dollars

Asset or liability	1987	1988
<b>ASSETS</b>		
<i>Short-term assets</i>		
Imputed reserve requirements on clearing balances .....	239.2	268.2
Investment in marketable securities .....	1,753.8	1,967.0
Receivables <sup>2</sup> .....	26.8	28.0
Materials and supplies <sup>2</sup> .....	4.4	6.4
Prepaid expenses <sup>2</sup> .....	4.2	5.8
Net items in process of collection* (float) .....	<u>363.5</u>	<u>438.3</u>
Total short-term assets .....	2,391.9	2,713.7
<i>Long-term assets</i>		
Premises <sup>2,3</sup> .....	229.6	245.4
Furniture and equipment <sup>2</sup> .....	126.8	129.5
Leases .....	1.8	2.5
Leasehold improvements <sup>2</sup> .....	<u>2.0</u>	<u>2.2</u>
Total long-term assets .....	<u>360.2</u>	<u>379.6</u>
<b>Total assets</b> .....	<b>2,752.1</b>	<b>3,093.2</b>
<b>LIABILITIES</b>		
<i>Short-term liabilities</i>		
Clearing balances .....	1,993.0	2,235.2
Balance arising from early credit of uncollected items .....	363.5	438.3
Short-term debt <sup>4</sup> .....	<u>35.4</u>	<u>40.1</u>
Total short-term liabilities .....	2,391.9	2,713.6
<i>Long-term liabilities</i>		
Obligations under capital leases .....	1.8	2.5
Long-term debt <sup>4</sup> .....	<u>126.2</u>	<u>136.4</u>
Total long-term liabilities .....	<u>128.0</u>	<u>138.9</u>
Total liabilities .....	2,519.9	2,852.5
Equity <sup>4</sup> .....	<u>232.2</u>	<u>240.7</u>
<b>Total liabilities and equity</b> .....	<b>2,752.1</b>	<b>3,093.2</b>

1. Data are averages for the year.
2. Financed through the private sector adjustment factor; other assets are self financing.
3. Includes allocations of \$600,000 in Board of

Governors' assets to priced services for 1987 and \$500,000 for 1988.

4. Imputed figures representing the source of financing for certain priced-service assets.

since last year have changed the composition of the 25-company sample used to calculate the PSAF. As in the past, the bank holding companies in the sample with the highest and lowest rates of return on equity before taxes were excluded, and calculations were based on the remaining 23 firms.

The rate of return on equity, the

interest rate on long-term debt, and the income tax rate used in calculating the PSAF are all based on three-year averages of values calculated from the model.

#### *Other Imputed Costs*

The other required PSAF recoveries for 1988—imputed sales taxes, FDIC

*Table C.2*

Derivation of the Private Sector Adjustment Factor, 1987–88

Millions of dollars, except as noted

Item	1987	1988
<b>PSAF COMPONENTS</b>		
<i>Assets to be financed</i> <sup>1</sup>		
Short-term .....	35.4	40.1
Long-term <sup>2</sup> .....	358.4	377.1
Total .....	393.8	417.2
<i>Capital structure (percent)</i>		
Short-term .....	9.0	9.6
Long-term .....	31.9	32.7
Equity .....	59.1	57.7
Total .....	100.0	100.0
<i>Cost of capital (percent)</i> <sup>3</sup>		
Short-term debt .....	8.5	7.1
Long-term debt .....	10.2	9.7
Pretax equity <sup>4</sup> .....	19.1	20.1
Weighted average .....	15.3	15.4
Tax rate (percent) <sup>4</sup> .....	33.9	32.3
<b>REQUIRED PSAF RECOVERIES</b>		
<i>Capital costs</i> <sup>5</sup>		
Short-term debt .....	3.0	2.8
Long-term debt .....	12.8	13.3
Equity .....	44.5	48.3
Total .....	60.3	64.4
<i>Other costs</i>		
Sales taxes .....	7.3	8.2
Assessment for federal deposit insurance .....	1.6	1.9
Expenses of Board of Governors .....	1.7	1.7
Total .....	10.6	11.8
<i>Total PSAF recoveries</i>		
<b>Millions of dollars</b> .....	<b>70.9</b>	<b>76.2</b>
<b>As a percent of capital</b> .....	<b>18.0</b>	<b>18.3</b>
<b>As a percent of expenses</b> .....	<b>15.8</b>	<b>16.3</b>

1. The asset base for priced services is directly determined.

2. Total long-term assets less capital leases that are self-financing.

3. All short-term assets are assumed to be financed by short-term debt. Of the total long-term assets, 36 percent are assumed to be financed by long-term debt and 64 percent by equity in 1988. The data are average rates paid by the bank holding companies included in the sample.

4. The pretax rate of return on equity is based on average aftertax rates of return on equity for the sample of bank holding companies, adjusted by the effective tax rate. The 1988 figures for pretax equity and the tax rate are based on a three-year average of these rates, for 1984–86.

5. The calculations underlying these data use the dollar value of assets to be financed, divided as described in note 4, and the rates for the cost of capital.

insurance, and Board expenses—total \$11.8 million, up 11 percent from 1987 (table C.2). Most of the increase is in imputed sales taxes, primarily because of capital expenditures planned for 1988; the remainder is from the expected rise in clearing balances and the resulting rise in imputed costs for FDIC insurance (table C.1).

### Capital Outlays

The Federal Reserve System accounts for its operations in accordance with

generally accepted accounting principles (GAAP) and depreciates the cost of fixed assets over their estimated useful lives. In the federal government, where no requirement exists for depreciation accounting, the cost of fixed assets is typically recorded as an expense at the time of purchase. However, the General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies*, which governs accounting in the federal government, specifies in title 2 the use of depreciation accounting for business

Table C.3

Total Expenses of the Federal Reserve System,  
Federal Government Accounting Method, 1983–88

Millions of dollars, except as noted

Year and entity	Total expenses	Depreciation <sup>1</sup>		Capital outlays	Total outlays	Percent change from previous year
		Equipment	Property			
	(1)	(2)		(3)	(1) – (2) + (3)	
<i>1983</i>						
Reserve Banks .....	1,028.5	39.7	18.9	97.2	1,067.0	...
Board of Governors .....	71.6	1.8	1.6	.7	68.9	...
Total .....	1,100.1	41.5	20.5	97.9	1,135.9	...
<i>1984</i>						
Reserve Banks .....	1,067.8	51.4	20.6	88.7	1,084.5	1.6
Board of Governors .....	76.5	2.0	1.6	7.9 <sup>2</sup>	80.8	17.3
Total .....	1,144.3	53.5	22.1	96.6	1,165.3	2.6
<i>1985</i>						
Reserve Banks .....	1,117.4	60.3	21.1	148.2	1,184.2	9.2
Board of Governors .....	82.0	3.3	1.6	4.2 <sup>2</sup>	81.3	.6
Total .....	1,199.4	63.6	22.7	152.4	1,265.5	8.6
<i>1986</i>						
Reserve Banks .....	1,161.3	68.0	23.5	164.1	1,233.9	4.2
Board of Governors .....	84.0	4.2	1.6	16.5	94.7	16.5
Total .....	1,245.3	72.6	25.1	180.6	1,295.2	2.3
<i>1987 estimate</i>						
Reserve Banks .....	1,194.3	76.6	26.5	159.9	1,251.1	1.4
Board of Governors .....	86.5	4.3	1.6	4.9	85.5	-9.7
Total .....	1,280.1	82.5	28.1	164.8	1,335.0	3.1
<i>1988 budget</i>						
Reserve Banks .....	1,245.1	82.9	29.5	225.9	1,358.6	8.6
Board of Governors .....	90.6	4.5	1.6	3.4	87.9	2.8
Total .....	1,335.7	89.0	31.1	229.3	1,444.9	8.2

1. The Board of Governors did not depreciate capital assets before 1985; data for earlier years are estimates based on current accounting procedures and historical data.

2. The Board's capital expenditures increased sharply in 1984 as a result of outlays for equipment for the Contingency Processing Center. The establishment of this facility also affected expenditures in 1985.

types of operations and for activities that recover costs from reimbursements or user charges. Certain activities of the Federal Reserve meet both of these criteria, and hence the Banks and the Board use depreciation accounting. Under GAAP, the cost of acquiring an asset that is expected to benefit an entity over future periods should be allocated over those periods. Such treatment also provides for a more realistic measurement of the operating performance of an entity.

The Banks capitalize and depreciate all capital assets that cost \$1,500 or more; they can either capitalize or expense assets costing less. The capitalization guideline for the Board is \$1,000.

The Banks maintain a multiyear plan for capital spending. The Board, in turn, requires the Banks to budget annually for capital outlays by capital class in order to estimate the effect of total operating and capital spending. During the budget year, the Banks

must submit proposed major purchases of capital assets to the Board for further review and approval. The Board of Governors reviews capital expenditures for the Board.

Table C.3 shows total System outlays for recent years based on the federal government's typical practice of expensing capital assets. Total outlays for each year are derived from total expenses less depreciation costs plus capital outlays. Because capital outlays are thus shown in total in the year of purchase rather than spread over the useful lives of the assets, the amounts and percent changes vary widely from year to year.

### Currency Printing

The Bureau of Engraving and Printing produces currency; the Federal Reserve Banks put it into circulation through depository institutions and destroy it as it wears out. New currency is printed to replace worn notes and to accommodate increases in the demand for circulating currency (table C.4). Notes are also required for Federal Reserve Bank inventories, which are held to meet changes in demand. The Federal Reserve Act stipulates that the costs associated with these activities be assumed by the Federal Reserve System (table C.5).

To minimize the number of new notes ordered and the cost of their printing, the Board consults with the Bureau of Engraving and Printing to ensure that it uses efficient methods, maintains System guidelines on the quality of notes, and sees that Reserve Banks do not destroy notes prematurely. The Board and the Banks also monitor all related costs, such as those for transportation and packaging.

*Table C.4*  
Currency in Circulation,  
New Notes Issued,  
and Notes Destroyed, 1987 Estimate

Millions of pieces

Dollar denomination	Notes in circulation <sup>1</sup>	New notes paid out <sup>2</sup>	Notes destroyed <sup>2</sup>
1 .....	3,970	2,545	2,488
5 .....	1,015	661	722
10 .....	1,152	595	638
20 .....	2,871	1,154	1,066
50 .....	526	125	69
100 .....	943	150	64
<b>Total .....</b>	<b>10,477</b>	<b>5,230</b>	<b>5,047</b>

1. As of July.

2. Based on actual levels through the third quarter and expected levels for the fourth quarter of 1987. Notes paid out do not include additions to inventory at the Reserve Banks.

*Table C.5*

Costs to the Federal Reserve of New Currency, 1986-88

Millions of dollars, except as noted

Item	1986 actual	1987 estimate	1988 budget	Percent change 1987-88
Printing <sup>1</sup> .....	174.8	164.2	156.3	-4.8
Shipping from Washington <sup>2</sup> .....	4.6	4.9	4.3	-12.2
Reimbursement to the Treasury for issuance and retirement .....	1.6	1.6	1.6	0
System-Treasury programs to deter counterfeiting.....	2.2	0	0	0
<b>Total costs of currency</b> .....	<b>183.2</b>	<b>170.7</b>	<b>162.2</b>	<b>-5.0</b>

1. Based on 6.5 billion notes in 1986, 6.6 billion notes in 1987, and 6.0 billion notes in 1988.

2. Includes purchase of pouches and seals for Bureau of Engraving and Printing.

## Appendix D

### Sources and Uses of Funds

The Federal Reserve System, in accordance with generally accepted accounting principles, accrues income and expenses and capitalizes acquisitions of assets whose useful lives extend over future years (see appendix C). The System derives its income primarily from U.S. government securities; the Federal Reserve acquires the securities through open market operations, one of the tools of monetary policy. These earnings account for approximately 95 percent of current net income (table D.1).

The current expenses of the Reserve Banks consist of their operating expenses and the costs of the earnings credits granted to depository institutions on clearing balances held with the Reserve Banks (table D.2). The

Reserve Banks record extraordinary gains or deductions from current net income in a profit-and-loss account. The primary entries in the account are for losses on the sale of U.S. government securities and for gains or losses resulting from the sale or revaluation of assets denominated in foreign currencies.

The Reserve Banks retain a surplus to cushion unexpected losses, much the same as commercial establishments retain earnings. The Board of Governors requires that the surplus account be an amount equal to the paid-in capital of the member banks.

Since the end of 1964, the Board's policy has been to transfer to the Treasury all net income after paying the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital. The amount transferred is counted as interest on Federal Reserve notes. In 1987, current income before expenses, dividends, additions to surplus, and payments to the Treasury is an estimated \$17.2 billion. Profit-and-loss transactions made a net addition of \$1.1 billion to current net income. Statutory dividends to member banks in 1987 are an estimated \$116 million; additions to surplus, \$167 million; and payments to the Treasury, \$17.7 billion.

Table D.1

Income of the Federal Reserve System,  
1986-87

Millions of dollars

Source	1986 actual	1987 estimate
Loans.....	279.2	224.4
U.S. government securities ...	16,141.5	16,371.4
Foreign currencies .....	393.6	343.9
Priced services .....	627.7	645.2
Other .....	22.1	48.5
<b>Total .....</b>	<b>17,464.2</b>	<b>17,633.3</b>

Table D.2

## Distribution of the Income of the Federal Reserve Banks, 1986-87

Millions of dollars

Item	1986 actual	1987 estimate
Current income <sup>1</sup> .....	17,464	17,633
LESS		
<i>Current expenses of Reserve Banks</i> <sup>2,3</sup>		
Operating expenses .....	1,049	1,034
Earnings-credit costs .....	108	114
EQUALS		
Current net income .....	16,307	16,486
PLUS		
Net additions to or deductions from (-) current net income <sup>4</sup> .....	1,976	1,844
LESS		
Cost of unreimbursed Treasury services <sup>5</sup> .....	0	45
<i>Assessments by Board</i>		
Board expenses .....	97	82
Cost of currency .....	181	171
<i>Other distributions</i>		
Dividends paid to member banks <sup>6</sup> .....	110	117
Transfers to or from (-) surplus <sup>7</sup> .....	92	174
EQUALS		
<b>Payments to U.S. Treasury</b> .....	<b>17,804</b>	<b>17,740</b>

1. See table D.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies.

3. Reflects reduction of \$49.2 million resulting from the implementation in 1987 of Financial Accounting Standards Board statement no. 87, Employers' Accounting for Pensions.

4. This account is the same as that reported under the same name in the table "Income and Expenses of the Federal Reserve System," in the Statistical Tables section of the Board's *Annual Report* and includes gains and losses on foreign exchange transactions due mainly to revaluations at market exchange rates; gains

and losses on sales of U.S. government securities; and miscellaneous gains and losses.

5. This account, added in 1987, reflects the cost of services provided to the U.S. Treasury that are reimbursable under agreements with the Treasury and for which reimbursement is not anticipated. These amounts were formerly debited to profit and loss (note 4).

6. The Federal Reserve Act requires the Federal Reserve to pay dividends to member banks at the rate of 6 percent of paid-in capital.

7. Each year the Federal Reserve transfers to its surplus account an amount sufficient to equate surplus to paid-in capital to provide a reserve against losses.

Appendix E

*Federal Reserve System Audits*

The Board of Governors, each of the Reserve Banks taken separately, and the Federal Reserve System as a whole are all subject to several levels of audit and review. At each Federal Reserve Bank, a full-time staff of auditors under the direction of a general auditor reports directly to the Bank's board of directors. The Board's Division of Federal Reserve Bank Operations, acting on behalf of the Board of Governors, regularly audits the financial operations of each of the Banks and periodically reviews all other Bank operations. The Board itself is reviewed by its own staff of auditors and operations reviewers; the responsibility for these internal reviews at the Board was consolidated in 1987 in a new Office of the Inspector General

(see chapter 2). In addition, an independent auditor annually examines the financial operations of the Board.

The 1978 passage of the Federal Banking Agency Audit Act (Public Law 95-320) brought most of the operations of the Federal Reserve System under the purview of the General Accounting Office (GAO). The GAO, which currently has 20 projects in various stages of completion, since 1979 has completed 42 reports on selected aspects of Federal Reserve operations (see tables E.1 and E.2). The GAO has also involved the Federal Reserve in about 60 other reviews not directly related to the System and has terminated 23 others before completion. The reports are available directly from the GAO.

Table E.1

Active GAO Projects Related to the Federal Reserve

Subject	Date initiated
Federal Reserve market oversight .....	2/22/84
Risks in the commercial banking industry .....	2/27/85
Regulation of banks' foreign exchange rate .....	5/14/85
Federal banking agencies' uniform country-risk examination system .....	9/20/85
Conflicts of interest .....	5/1/86
Food stamp redemption process .....	5/7/86
Regulation Q .....	11/3/86
Internationalization of capital markets .....	11/7/86
Government securities secondary market trading system .....	11/7/86
Supervision of banks' use of short-term funding .....	11/24/86
Federal Reserve administrative expenses .....	2/4/87
Food stamp program within Federal Reserve banking system .....	7/22/87
Merging federal deposit insurance funds .....	8/17/87
Comparison of regulations governing U.S. financial institutions' operations overseas with those governing domestic operations .....	8/17/87
Federal Reserve pricing of check clearing services .....	8/19/87
High-yield bond study .....	8/19/87
Sectoral risk in commercial banking .....	8/26/87
Current condition of U.S. commercial banking industry .....	8/27/87
Cashing of government checks .....	9/2/87
Government in the Sunshine Act .....	9/17/87

Table E.2  
Completed GAO Reports Related to the Federal Reserve System

Report	Number	Date
Comparing Policies and Procedures of the Three Bank Regulatory Agencies	GGD-79-27	3/29/79
Federal Systems Not Designed to Collect Data on All Foreign Investments in U.S. Depository Institutions	GGD-79-42	6/19/79
The Federal Reserve Should Assure Compliance with the 1970 Bank Holding Company Act Amendments	GGD-80-21	3/12/80
Internal Auditing Can Be Strengthened in the Federal Reserve System	GGD-80-59	8/8/80
Despite Positive Effects, Further Foreign Acquisitions of U.S. Banks Should Be Limited until Policy Conflicts are Fully Addressed	GGD-80-66	8/26/80
Federal Examinations of Financial Institutions: Issues That Need to be Resolved	GGD-81-12	1/6/81
Examinations of Financial Institutions Do Not Assure Compliance with Consumer Credit Laws	GGD-81-13	1/21/81
Disappointing Progress in Improving Systems for Resolving Billions in Audit Findings	AFMD-81-27	1/23/81
Federal Reserve Security over Currency Transportation is Adequate	GGD-81-27	2/23/81
The Federal Structure for Examining Financial Institutions Can Be Improved	GGD-81-21	4/24/81
Response to Questions Bearing on the Feasibility of Closing the Federal Banks	GGD-81-49	5/21/81
Bank Secrecy Act Reporting Requirements Have Not Yet Met Expectations, Suggesting Need for Amendment	GGD-81-80	7/23/81
Federal Reserve Could Improve the Efficiency of Bank Holding Company Inspections	GGD-81-79	8/18/81
Information on Selected Aspects of Federal Reserve System Expenditures	GGD-82-33	2/12/82
Federal Review of Intrastate Branching Can Be Reduced	GGD-82-31	2/24/82
Despite Improvements, Recent Bank Supervision Could Be More Effective and Less Burdensome	GGD-82-21	2/26/82
Issues to Be Considered while Debating Interstate Bank Branching	GGD-82-36	4/9/82
The Federal Reserve Should Move Faster to Eliminate Subsidy of Check Clearing Operations	GGD-82-22	5/7/82
Information about Depository Institutions' Ancillary Activities Is Not Adequate for Policy Purposes	GGD-82-57	6/1/82
Bank Merger Process Should Be Modernized and Simplified	GGD-82-53	8/16/82
An Analysis of Fiscal and Monetary Policies	PAD-82-45	8/31/82
Bank Examination for Country Risk and International Lending	ID-82-52	9/2/82
Credit Insurance Disclosure Provisions of the Truth-in-Lending Act Consistently Enforced Except When Decisions Appealed	GGD-83-3	10/25/82
Financial Institutions Regulatory Agencies Can Make Better Use of Consumer Complaint Information	GGD-83-13	8/25/83
Unauthorized Disclosure of the Federal Reserve's Monetary Policy Decision	GGD-84-40	2/3/84
Federal Financial Institutions Examination Council Has Made Limited Progress toward Accomplishing Its Mission	GGD-84-4	2/3/84
Control Improvements Needed in Accounting for Treasury Securities at the Federal Reserve Bank of New York	AFMD-84-10	5/2/84
Statutory Requirements for Examining International Banking Institutions Need Attention	GGD-84-39	7/11/84
Supervisory Examinations of International Banking Facilities Need to Be Improved	GGD-84-65	9/30/84
An Examination of Concerns Expressed about the Federal Reserve's Pricing of Check Clearing Activities	GGD-85-9A	1/14/85

Table E.2—Continued

Report	Number	Date
Information on Independent Public Accountant Audits of Financial Institutions .....	GGD-84-44FS	4/21/86
An Analysis of Two Types of Pooled Investment Funds .....	GGD-86-63	5/12/86
How the Markets Developed and How They Are Regulated .....	GGD-86-26	5/15/86
U.S. Banking Supervision and International Supervisory Principles .....	NSIAD-86-93	7/25/86
Financial Institution Regulators' Compliance Examination .....	GGD-86-94	8/1/86
The Market's Structure, Risks, and Regulation .....	GGD-86-80BR	8/20/86
Dealer Views on Market Operations and Federal Reserve Securities Transfer System .....	GGD-86-147FS	9/29/86
Questions About the Federal Reserve's Securities Transfer System .....	GGD-87-15BR	10/20/86
Federal Reserve Board Opposition to Credit Card Interest Rate Limits .....	GGD-87-38BR	4/7/87
Insulating Banks From the Potential Risk of Expanded Activities .....	GGD-87-35	4/14/87
The Federal Reserve Response Regarding its Market-Making Standard .....	GGD-87-55FS	4/21/87
Change in Fees and Deposit Account Interest Rates Since Deregulation .....	GGD-87-70	7/13/87

*Appendix F*

*Expenses and Employment  
at the Federal Reserve Banks*

*Table F.1*

Operating Expenses of the Federal Reserve Banks, by District, 1987-88

Thousands of dollars, except as noted

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	70,480	73,499	3,020	4.3
New York .....	230,913	245,337	14,424	6.2
Philadelphia .....	64,599	67,140	2,541	3.9
Cleveland .....	71,627	74,251	2,624	3.7
Richmond .....	92,394	95,343	2,948	3.2
Atlanta .....	109,881	115,084	5,203	4.7
Chicago .....	142,179	146,216	4,037	2.8
St. Louis .....	60,716	62,729	2,013	3.3
Minneapolis .....	59,108	61,673	2,565	4.3
Kansas City .....	77,964	81,025	3,060	3.9
Dallas .....	76,371	79,606	3,235	4.2
San Francisco .....	138,040	143,199	5,160	3.7
<b>Total, all Districts .....</b>	<b>1,194,271<sup>1</sup></b>	<b>1,245,102</b>	<b>50,831</b>	<b>4.3</b>
Special project .....	...	6,181	...	...
<b>Total .....</b>	<b>1,194,271</b>	<b>1,251,283</b>	<b>57,012</b>	<b>4.8</b>

1. Includes \$1.1 million for the Systemwide check image processing project in 1987. The initiative was converted to special project status for 1988 and funds for it accounted separately from the operating budgets.

*Table F.2*

Expenses and Staff Increases Required for Expedited Funds Availability, by District, 1988<sup>1</sup>

Thousands of dollars, except as noted

District	Capital outlays	Operating expenses		Total	Staff increase	
		Transpor- tation	Other		New positions	ANP <sup>2</sup>
Boston .....	0	400	684	1,084	28	16
New York .....	2,179	598	730	1,328	60	25
Philadelphia .....	622	233	603	836	15	9
Cleveland .....	1,595	405	312	717	12	5
Richmond .....	98	287	460	747	26	19
Atlanta .....	861	724	618	1,342	21	14
Chicago .....	2,686	1,154	1,009	2,163	42	21
St. Louis .....	172	130	455	585	14	11
Minneapolis .....	368	300	497	797	23	13
Kansas City .....	1,640	305	975	1,280	40	25
Dallas .....	2,362	125	909	1,034	13	7
San Francisco .....	2,287	1,151	1,864	3,015	74	44
<b>Total .....</b>	<b>14,870</b>	<b>5,811</b>	<b>9,117</b>	<b>14,927</b>	<b>368</b>	<b>208</b>

1. Not included in 1988 budget figures.

2. Average number of personnel; see chap. 3, note 2, for definition.

Table F.3

Employment at the Federal Reserve Banks, by District, 1987-88

Average number of personnel<sup>1</sup>

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	1,490	1,500	10	.7
New York .....	4,043	3,982	-61	-1.5
Philadelphia .....	1,228	1,244	16	1.3
Cleveland .....	1,414	1,398	-16	-1.1
Richmond .....	1,937	1,940	3	.2
Atlanta .....	2,188	2,196	8	.4
Chicago .....	2,768	2,673	-95	-3.4
St. Louis .....	1,316	1,313	3	-.2
Minneapolis .....	1,071	1,076	5	.5
Kansas City .....	1,640	1,645	5	.3
Dallas .....	1,555	1,582	27	1.7
San Francisco .....	2,455	2,482	27	1.1
<b>Total .....</b>	<b>23,105</b>	<b>23,032<sup>2</sup></b>	<b>-73</b>	<b>-.3</b>

1. See chap. 3, note 2, for definition of ANP.

2. Includes 1 ANP for Systemwide check image processing project.

Table F.4

Expenses of the Federal Reserve Banks, by Operational Area, 1987-88

Thousands of dollars, except as noted

Operational area	1987 estimate	1988 budget	Change	
			Amount	Percent
Monetary and economic policy .....	88,447	91,742	3,296	3.7
Supervision and regulation .....	135,892	142,504	6,612	4.9
Services to financial institutions and the public .....	799,865	827,458	27,593	3.4
Services to the U.S. Treasury and other government agencies .....	170,067	183,397	13,330	7.8
<b>Total .....</b>	<b>1,194,271</b>	<b>1,245,102</b>	<b>50,831</b>	<b>4.3</b>
<b>MEMO<sup>1</sup></b>				
Support .....	380,754	404,796	24,041	6.3
Overhead .....	349,573	351,583	2,010	.6

1. Costs of support and overhead included in expenses by operational area. Support refers to activities, such as data processing, whose costs can be charged

to users according to amount of use. Overhead refers to activities, such as auditing, whose costs are charged according to the users' shares of total costs.

Table F.5

Expenses of the Federal Reserve Banks  
for Monetary and Economic Policy, by District, 1987-88

Thousands of dollars, except as noted

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	4,680	4,539	-141	-3.0
New York <sup>1</sup> .....	31,900	35,314	3,415	10.7
Philadelphia .....	4,020	3,890	-130	-3.2
Cleveland .....	4,878	4,928	50	1.0
Richmond .....	4,225	4,227	2	.0
Atlanta .....	5,352	5,737	385	7.2
Chicago .....	7,257	7,244	-13	-.2
St. Louis .....	4,751	4,979	228	4.8
Minneapolis .....	4,394	3,585	-809	-18.4
Kansas City .....	4,419	4,425	6	.1
Dallas .....	4,558	5,000	442	9.7
San Francisco .....	8,013	7,874	-139	-1.7
<b>Total</b> .....	<b>88,447</b>	<b>91,742</b>	<b>3,296</b>	<b>3.7</b>

1. Expenses of open market trading operations, located in the District, are \$12.7 million for 1987 and \$14.9 million for 1988.

Table F.6

Expenses of the Federal Reserve Banks  
for Supervision and Regulation, by District, 1987-88

Thousands of dollars, except as noted

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	7,304	8,030	726	9.9
New York .....	34,049	37,362	3,313	9.7
Philadelphia .....	7,311	7,746	435	6.0
Cleveland .....	10,052	10,502	450	4.5
Richmond .....	9,810	10,534	725	7.4
Atlanta .....	13,917	14,900	983	7.1
Chicago .....	25,335	27,143	1,808	7.1
St. Louis .....	7,118	7,654	536	7.5
Minneapolis .....	7,577	8,718	1,142	15.1
Kansas City .....	15,404	16,293	889	5.8
Dallas .....	12,299	14,278	1,979	16.1
San Francisco .....	19,891	20,237	346	1.7
<b>Total</b> .....	<b>170,067</b>	<b>183,397</b>	<b>13,330</b>	<b>7.8</b>

Table F.7

Expenses of the Federal Reserve Banks  
for Services to Financial Institutions and the Public, by District, 1987-88

Thousands of dollars, except as noted

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	52,168	54,014	1,846	3.5
New York .....	134,310	140,823	6,512	4.8
Philadelphia .....	37,836	39,067	1,231	3.3
Cleveland .....	46,939	47,762	823	1.8
Richmond .....	69,757	71,758	2,001	2.9
Atlanta .....	80,975	84,172	3,197	3.9
Chicago .....	94,439	95,997	1,558	1.7
St. Louis .....	40,676	42,228	1,552	3.8
Minneapolis .....	43,023	44,625	1,602	3.7
Kansas City .....	51,716	53,754	2,038	3.9
Dallas .....	53,195	53,715	520	1.0
San Francisco .....	94,833	99,543	4,711	5.0
<b>Total</b> .....	<b>799,865</b>	<b>827,458</b>	<b>27,593</b>	<b>3.4</b>

Table F.8

Expenses of the Federal Reserve Banks  
for Services to the U.S. Treasury and Other Government Agencies, by District, 1987-88

Thousands of dollars, except as noted

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	6,327	6,916	588	9.3
New York .....	30,654	31,838	1,184	3.9
Philadelphia .....	15,432	16,437	1,005	6.5
Cleveland .....	9,758	11,059	1,301	13.3
Richmond .....	8,603	8,824	221	2.6
Atlanta .....	9,637	10,275	638	6.6
Chicago .....	15,149	15,833	684	4.5
St. Louis .....	8,171	7,868	-303	-3.7
Minneapolis .....	4,114	4,745	631	15.3
Kansas City .....	6,426	6,553	127	2.0
Dallas .....	6,319	6,613	294	4.7
San Francisco .....	15,303	15,546	242	1.6
<b>Total</b> .....	<b>135,892</b>	<b>142,504</b>	<b>6,612</b>	<b>4.9</b>

Table F.9

Expenses of the Federal Reserve Banks  
for Salaries of Officers and Employees, by District, 1987-88

Thousands of dollars, except as noted

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	40,265	42,275	2,010	5.0
New York .....	119,945	125,222	5,277	4.4
Philadelphia .....	31,604	33,561	1,958	6.2
Cleveland .....	35,017	36,178	1,160	3.3
Richmond .....	45,701	47,597	1,896	4.1
Atlanta .....	52,924	55,275	2,352	4.4
Chicago .....	72,406	73,169	763	1.1
St. Louis .....	31,317	33,112	1,795	5.7
Minneapolis .....	27,445	29,108	1,664	6.1
Kansas City .....	41,122	43,030	1,908	4.6
Dallas .....	40,091	42,826	2,735	6.8
San Francisco .....	69,070	72,752	3,682	5.3
<b>Total .....</b>	<b>606,907</b>	<b>634,105</b>	<b>27,198</b>	<b>4.5</b>

Table F.10

Factors in the 1987-88 Change in Salaries  
of Officers and Employees of the Federal Reserve Banks, by District

Percentage points

District	Merit adjust- ment	Structure adjust- ment	Promotion and reclassi- fication	Change in staffing	Turnover and lag <sup>1</sup>	Overtime	Other	Total change
Boston .....	5.9	.1	1.3	.8	-2.3	-.8	.0	5.0
New York .....	5.2	.0	.8	-.8	-.8	-.2	.3	4.5
Philadelphia .....	4.8	.5	.7	1.8	-.6	-1.0	.0	6.2
Cleveland .....	4.4	.2	.8	.3	-2.9	.0	.4	3.2
Richmond .....	5.0	.0	1.4	-.8	-1.1	-.5	.1	4.1
Atlanta .....	4.4	.2	.3	.2	-.5	-.2	.0	4.4
Chicago .....	4.3	.0	1.0	-2.6	-.7	-.9	.0	1.1
St. Louis .....	5.0	.0	.7	-.1	.0	-.1	.4	5.9
Minneapolis .....	4.5	.0	1.0	1.1	-.3	-.2	.0	6.1
Kansas City .....	4.6	.5	.9	1.0	-1.3	-.2	-.9	4.6
Dallas .....	4.4	.2	.6	2.6	-.7	-.4	.2	6.8
San Francisco .....	5.0	.0	.2	1.2	-.1	-.2	.0	6.1
<b>Total .....</b>	<b>4.8</b>	<b>.1</b>	<b>.8</b>	<b>.1</b>	<b>-.9</b>	<b>-.4</b>	<b>.1</b>	<b>4.5</b>

1. Turnover is the replacement of a departing employee with one having a lower pay grade. Lag is the time during which a position remains vacant.

Table F.11

## Capital Outlays of the Federal Reserve Banks, by District, 1987-88

Thousands of dollars, except as noted

District	1987 estimate	1988 budget	Change	
			Amount	Percent
Boston .....	8,738	7,664	-1,075	-12.3
New York .....	30,110	30,423	313	1.0
Philadelphia .....	2,991	5,830	2,839	94.9
Cleveland .....	7,479	14,953	7,474	99.9
Richmond .....	18,993	28,799	9,807	51.6
Atlanta .....	15,491	19,178	3,687	23.8
Chicago .....	40,130	63,556	23,426	58.4
St. Louis .....	4,755	7,340	2,585	54.4
Minneapolis .....	4,829	4,687	-147	-3.0
Kansas City .....	5,659	6,582	924	16.3
Dallas .....	4,643	15,301	10,658	229.5
San Francisco .....	16,106	21,609	5,503	34.2
<b>Total .....</b>	<b>159,924</b>	<b>225,918</b>	<b>65,994</b>	<b>41.3</b>

Table F.12

Capital Outlays of the Federal Reserve Banks, by District and Class of Outlay, 1987-88

Thousands of dollars

District and year	Data processing and data communication equipment	Furniture, furnishings, and fixtures	Other equipment	Land and other real estate	Buildings	Building machinery and equipment	Leasehold improvements	Total
<i>Boston</i>								
1987 estimate .....	4,615	331	835	0	2,639	300	19	8,738
1988 budget .....	4,533	182	490	0	1,623	837	0	7,664
<i>New York</i>								
1987 estimate .....	14,762	1,800	2,696	5,000	5,662	0	190	30,110
1988 budget .....	11,965	1,740	3,496	6,600	4,382	91	2,151	30,423
<i>Philadelphia</i>								
1987 estimate .....	1,672	255	397	0	145	510	13	2,991
1988 budget .....	2,881	129	432	0	98	2,100	190	5,830
<i>Cleveland</i>								
1987 estimate .....	3,237	944	477	0	1,519	1,145	156	7,479
1988 budget .....	9,521	1,108	661	0	2,241	1,422	0	14,953
<i>Richmond</i>								
1987 estimate .....	4,568	200	1,350	1	12,774	100	0	18,993
1988 budget .....	7,562	460	939	125	19,639	75	0	28,799
<i>Atlanta</i>								
1987 estimate .....	3,635	2,231	907	322	5,884	2,513	0	15,491
1988 budget .....	9,236	4,099	1,191	115	3,259	1,232	45	19,178
<i>Chicago</i>								
1987 estimate .....	8,246	1,364	838	0	27,793	1,489	400	40,130
1988 budget .....	17,195	1,872	1,260	0	40,280	2,667	282	63,556
<i>St. Louis</i>								
1987 estimate .....	1,876	332	459	0	1,967	121	0	4,755
1988 budget .....	2,621	137	327	0	3,932	323	0	7,340
<i>Minneapolis</i>								
1987 estimate .....	2,551	80	407	1,050	537	205	0	4,830
1988 budget .....	3,084	100	304	98	582	515	0	4,683
<i>Kansas City</i>								
1987 estimate .....	2,433	381	531	102	1,491	722	0	5,659
1988 budget .....	2,202	1,002	813	55	2,028	483	0	6,582
<i>Dallas</i>								
1987 estimate .....	2,030	174	217	0	2,052	100	70	4,643
1988 budget .....	9,200	105	817	144	3,359	1,652	25	15,301
<i>San Francisco</i>								
1987 estimate .....	5,270	904	2,043	0	5,380	610	1,900	16,106
1988 budget .....	12,836	934	1,838	0	4,786	900	315	21,609
<b>Total</b>								
1987 estimate .....	54,892	8,996	11,155	6,475	67,844	7,814	2,748	159,924
1988 budget .....	92,833	11,868	12,567	7,137	86,209	12,296	3,008	225,918

Table F.13

Budget Performance of the Federal Reserve Banks,  
Operating Expenses, by District, 1987

Thousands of dollars, except as noted

District	1987 budget	1987 estimate	Change	
			Amount	Percent
Boston .....	70,480	70,480	0	.0
New York .....	230,939	230,913	-26	.0
Philadelphia .....	66,209	64,599	-1,610	-2.4
Cleveland .....	71,583	71,627	44	.1
Richmond .....	92,055	92,394	339	.4
Atlanta .....	109,947	109,881	-66	-.1
Chicago .....	142,232	142,179	-53	.0
St. Louis .....	60,299	60,716	417	.7
Minneapolis .....	59,128	59,108	-20	.0
Kansas City .....	78,200	77,964	-235	-.3
Dallas .....	76,345	76,371	26	.0
San Francisco .....	140,397	138,040	-2,358	-1.7
<b>Total .....</b>	<b>1,197,814</b>	<b>1,194,271</b>	<b>-3,543</b>	<b>-.3</b>

Table F.14

Budget Performance of the Federal Reserve Banks,  
Employment, by District, 1987Average number of personnel, except as noted <sup>1</sup>

District	1987 budget	1987 estimate	Change	
			Amount	Percent
Boston .....	1,460	1,490	30	2.1
New York .....	4,047	4,043	-4	-.1
Philadelphia .....	1,256	1,228	-28	-2.2
Cleveland .....	1,399	1,414	15	1.1
Richmond .....	1,963	1,937	-26	-1.3
Atlanta .....	2,196	2,188	-8	-.4
Chicago .....	2,803	2,768	-35	-1.2
St. Louis .....	1,322	1,316	-6	-.5
Minneapolis .....	1,079	1,071	-8	-.7
Kansas City .....	1,621	1,640	19	1.2
Dallas .....	1,563	1,555	-8	-.5
San Francisco .....	2,453	2,455	2	.1
<b>Total .....</b>	<b>23,162</b>	<b>23,105</b>	<b>-57</b>	<b>-.2</b>

1. See chap. 3, note 2, for definition of ANP.

Table F.15

## Expenses of the Federal Reserve Banks, by Operational Area, 1983-88

Thousands of dollars, except as noted

Year	Monetary and economic policy	Supervision and regulation	Services to financial institutions and the public	Services to the U.S. Treasury and other government agencies	Total
1983 .....	100,443	131,848	675,918	120,256	1,028,465
1984 .....	99,351	140,690	701,453	126,307	1,067,802
1985 .....	90,945	151,991	742,896	131,544	1,117,377
1986 .....	90,570	163,915	770,016	136,789	1,161,290
1987 estimate .....	88,447	170,067	799,865	135,892	1,194,271
1988 budget .....	91,742	183,397	827,458	142,504	1,245,102
Average annual change, percent .....	-1.8	6.8	4.1	3.5	3.9

Table F.16

## Employment at the Federal Reserve Banks, by Operational Area, 1983-88

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

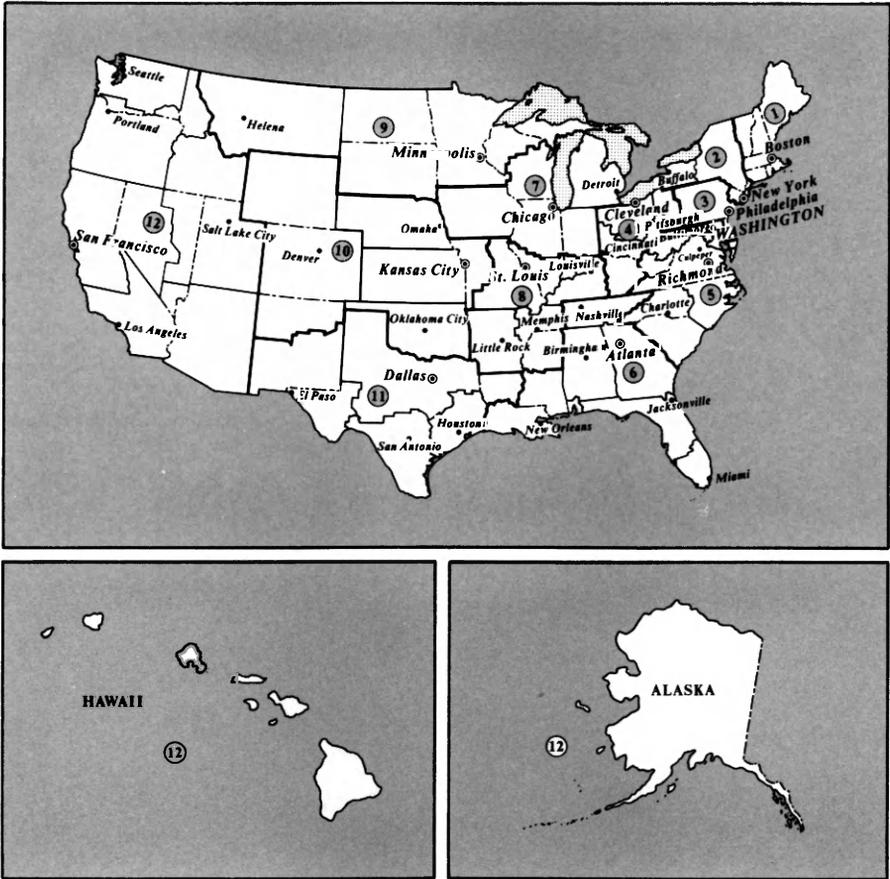
Year	Monetary and economic policy	Supervision and regulation	Services to financial institutions and the public	Services to the U.S. Treasury and other government agencies	Support <sup>2</sup>	Overhead <sup>2</sup>	Total
1983 .....	804	1,862	8,424	1,838	4,367	5,589	22,883
1984 .....	826	1,885	8,395	1,798	4,340	5,424	22,669
1985 .....	816	1,912	8,754	1,781	4,398	5,323	22,984
1986 .....	791	2,087	8,799	1,819	4,469	5,274	23,238
1987 estimate .....	781	2,155	8,767	1,826	4,517	5,057	23,105
1988 budget .....	788	2,213	8,746	1,800	4,541	4,945	23,031
Average annual change, percent .....	-.4	3.5	.8	-.4	.8	-2.4	.1

1. See chap. 3, note 2, for definition of ANP.

2. See table F.4, note 1, for definition.

# The Federal Reserve System

## Boundaries of Federal Reserve Districts and their Branch Territories



### Legend

- Boundaries of Federal Reserve Districts
- Boundaries of Federal Reserve Branch Territories
- Board of Governors of the Federal Reserve System
- Federal Reserve Bank Cities
- Federal Reserve Branch Cities
- Federal Reserve Bank Facilities

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