

Annual Report: Budget Review



Board of Governors of the Federal Reserve System

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Introduction

Federal Reserve Budget Process and Operational Areas

The Federal Reserve System comprises the seven-member Board of Governors in Washington, D.C., the twelve Federal Reserve Banks with their twenty-five Branches in Districts around the nation, the Federal Open Market Committee (FOMC), and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council. The System was created in 1913 to establish a safe and flexible monetary and banking system. Over the years, the Congress has given the Federal Reserve more authority and responsibility for achieving broad national economic and financial objectives.

As the nation's central bank, the Federal Reserve has many, varied responsibilities: It acts to ensure growth of the nation's economy consistent with price stability; it serves as the nation's lender of last resort, with responsibility for forestalling national liquidity crises; and it is involved in bank supervision and regulation, with responsibilities for bank holding companies, state-chartered banks that are members of the Federal Reserve System, the foreign activities of U.S. banks, and the U.S. activities of foreign banks. The Federal Reserve also administers the nation's consumer credit protection laws.

The Federal Reserve System also plays a major role in the nation's payments mechanism. The Reserve Banks distribute currency and coin, provide wire and automated clearing-house transfers of funds and securities, and process approximately one-third of all domestic checks. The Federal Reserve

also serves as the fiscal agent for the U.S. Treasury and provides a variety of other financial services for the Treasury and other government agencies.

In carrying out its responsibilities in 1993, the Federal Reserve System spent an estimated \$1.9 billion and earned an estimated \$954 million in revenue from priced services, reimbursements, and other income, for a total of \$906 million in net operating expenses. The major source of Federal Reserve income is earnings on the portfolio of U.S. government securities in the System Open Market Account, estimated at \$16.9 billion in 1993. Earnings in excess of expenses, dividends, and surplus—in 1993, an estimated \$16.0 billion—were returned to the U.S. Treasury. (These earnings are treated as receipts in the U.S. budget accounting system, and anticipated earnings projected by the Office of Management and Budget appear in the U.S. budget.)

The Budget Process

The Board of Governors and the Reserve Banks have separate budgets and budgeting processes.

Board of Governors

All levels of Board management are involved in a planning and budgeting process that begins in the spring with development of a budget guideline and extends through November of each year. The administrative governor, under

authority delegated by the Chairman, oversees the process until the budget is submitted to the Board for action at an open meeting in November.

The Board budget is structured in four operational areas (described in the next section). Costs for data processing are distributed to the four areas according to use; expenses for other elements of support and overhead are allocated to the four areas in proportion to the share of direct costs attributable to each area. The Board, in accordance with generally accepted accounting principles, capitalizes certain assets and depreciates their value over appropriate time periods instead of expensing them in their year of purchase. Hence, the Board has both an operations budget and a capital budget.

The Board's Office of Inspector General (OIG), in keeping with its statutory independence, prepares its proposed budget apart from the Board's budget. The OIG budget is also presented to the Board of Governors for action at an open meeting in November. (The OIG is discussed in chapter 2 and appendix C.)

After the Board budget is approved, the cash requirement for the first half of the calendar year is estimated and the amount is raised by an assessment on each of the Reserve Banks in proportion to its capital stock and surplus. The cash requirement for the second half of the year is estimated in June, and the second assessment is made in July. To minimize cash balances held by the Board, funds are transferred quarterly.

Reserve Banks

Each year the Federal Reserve Banks, like the Board, establish major operating goals for the coming year, devise strategies for their attainment, estimate required resources, and monitor results.

As with the Board, the process begins with development of a budget guideline. The Board of Governors reviews the proposed level of spending and communicates the budget objective to the Reserve Banks for their guidance. Each Bank then develops its own budget. The budgets are reviewed at the Board by a committee of three governors—the Bank Activities Committee—both as separate documents and in light of Systemwide issues and the plans of the other Banks, before they are presented to the full Board of Governors for final action at an open meeting in December.

The Banks' budgets are also structured in four operational areas (described in the next section), with support and overhead charged to the operational areas. Approved separately from the budget process, which focuses on operational costs, are special projects, which are long-range research and development efforts that have the potential to make a major improvement in the nation's payments mechanism or in the Federal Reserve's ability to provide services (special projects for 1994 are described in appendix A).

The operations and financial performance of the Reserve Banks are monitored throughout the year via a cost-accounting system, the Planning and Control System (PACS), which was implemented by the Banks in 1977. Under PACS, the costs of all Reserve Bank services, both priced and non-priced, are grouped by operational area, and the costs of support and overhead are charged to the four areas. (The services assigned to each of the operational areas are listed in chapter 3, tables 3.7 through 3.10.) PACS makes it possible to compare budgets with actual expenses and enables the Board of Governors to compare the financial and operating performances of the Reserve Banks.

Operational Areas

For budgeting purposes, the Board of Governors and the Reserve Banks account for their activities in four major operational areas. Three of the areas—monetary and economic policy, supervision and regulation of financial institutions, and services to financial institutions and the public—are common to the Board and the Banks. The Banks' fourth operational area is services to the U.S. Treasury and other government agencies, and the Board's fourth area is System policy direction and oversight.

Monetary and Economic Policy

The monetary and economic policy operational area encompasses Federal Reserve actions to influence the availability and cost of money and credit in the nation's economy. These actions include setting reserve requirements, setting the discount rate (which affects the cost of borrowing), and conducting open market operations.

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. The research staffs at the Board and the Reserve Banks use these data, along with information 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 information for the Board of Governors and for each meeting of the FOMC by preparing detailed economic and financial analyses and projections for the domestic economy and international markets. They also conduct longer-run economic studies of regional, national, and international issues.

Supervision and Regulation

The Federal Reserve System plays a major role in the supervision and regulation of banks and bank holding companies. The Board of Governors adopts regulations to carry out statutory directives and establishes System supervisory and regulatory policies; the Reserve Banks conduct on-site examinations and inspections of state member banks and bank holding companies, review applications for mergers, acquisitions, and changes in control from banks and bank holding companies, and take formal supervisory actions. In 1993 the Board and the Reserve Banks conducted approximately 773 state member bank examinations and approximately 2,145 bank holding company inspections and acted on a total of 2,797 international and domestic applications.

The Board also enforces compliance by state member banks with the federal laws protecting consumers in their use of credit. In 1993 the System conducted approximately 660 compliance examinations.

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.

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.

Services to Financial Institutions and the Public

The Federal Reserve System plays a central role in the nation's payments

mechanism, which is composed of many independent systems that move funds among financial institutions across the country. The Reserve Banks obtain currency and coin from the Bureau of Engraving and Printing and from the Mint and distribute it to the public through depository institutions; they also identify counterfeits and destroy currency that is unfit for circulation. In 1993 the Reserve Banks distributed \$324.2 billion in currency and \$4.6 billion in coin and destroyed \$79.6 billion in unfit currency.

The Reserve Banks (along with their Branches and regional centers) also process checks for collection—approximately 19 billion checks in 1993 with an average daily value of more than \$55 billion.

The Federal Reserve also plays a central role in the nation's payments mechanism through its wire transfer system, Fedwire. Through Fedwire, depository institutions can draw on their reserves or clearing accounts at the Reserve Banks and transfer funds anywhere in the country. Approximately 7,900 depository institutions use Fedwire through direct computer connections with Reserve Banks, and another 2,800 institutions use Fedwire through off-line means such as telephone. In 1993, approximately 70 million transfers valued at about \$208 trillion were sent over Fedwire, an average of \$2.9 million per transfer and \$824 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 net settlement services include local check clearing house associations, automated clearing house (ACH) networks, credit card processors, automated teller machine networks, and national and

regional funds transfer and securities transfer networks. In 1993, approximately 600,000 net settlement entries for participants in small-dollar clearing arrangements were processed by the Reserve Banks.

Approximately 27,200 depository institutions participate in the Federal Reserve's ACH service, which allows them to send or receive payments electronically instead of by check. The institutions use the ACH service for credit and debit transactions. Of the approximately 8,700 ACH endpoints, all but 660 have electronic connections with the Federal Reserve; by June 30, 1994, all endpoints will be electronically connected. In 1993 the Reserve Banks processed approximately 2.10 billion ACH transactions valued at about \$8.75 trillion; approximately 26 percent of the transactions were for the federal government, and the rest were for commercial establishments.

The securities services provided by the Reserve Banks cover the handling of book-entry and definitive securities and the collection of coupons and miscellaneous items. The book-entry service, begun in 1968, enables holders of Treasury and government agency securities to transfer the securities electronically to other institutions throughout the country. In 1993 the Reserve Banks processed approximately 11.9 million securities transfers valued at \$146 trillion.

Until 1994, the Federal Reserve provided two paper-based securities services, definitive securities safekeeping and noncash collection. The priced definitive securities safekeeping service, a custodial service, was discontinued at the end of 1993, however, because of declining volume. The noncash collection service, through which maturing coupons and bonds are presented for collection, processed 1.7 million trans-

actions in 1992 and about 1.1 million transactions in 1993.

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

The U.S. government uses the Federal Reserve as its bank. Through deposit accounts at the Reserve Banks, the government issues checks and payments and collects 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 Reserve Banks provide several unique services to the government. They monitor the tax receipts deposited in the 12,435 tax and loan accounts that are maintained by depository institutions designated to perform this function, they hold the collateral that those institutions pledge to support these and other government deposits, and they 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 U.S. savings and retirement plan bonds. The Reserve Banks also redeem food coupons for the U.S. Department of Agriculture and destroy redeemed coupons.

System Policy Direction and Oversight

This operational area encompasses activities by the Board of Governors to supervise Board and Bank programs. Expenses for these activities are considered overhead expenses of the System and are, therefore, allocated across the other operational areas. ■

Part I

The 1994 Budgets

Chapter 1

Federal Reserve System

For 1994, the Federal Reserve System has budgeted net operating expenses of \$969.6 million. Revenue from priced services provided to depository institutions is expected to total \$772.7 million, or 39.5 percent of total budgeted operating expenses. Total operating expenses are budgeted at \$1,954.9 million, an increase of 5.1 percent over estimated 1993 expenses. This total comprises \$1,808.2 million for the Reserve Banks and \$146.7 million for the Board of Governors (table 1.1).

Not included in the budget for operations are expenses for Reserve Bank special projects, budgeted at \$68.3 million for 1994, down from \$83.3 million estimated for 1993.¹ Also excluded is the budgeted cost of currency, \$366.8 million, an increase of 3.0 percent over the estimated 1993 cost of \$356.1 million.² The distribution of expenses is similar to that in previous years, with the Reserve Banks accounting for approximately three-fourths of the total (chart 1.1).

System employment (including staff for the special projects) is budgeted at 26,278 for 1994, a decline of 207 from the estimated 1993 level. (Details are given in chapters 2 and 3.)

1. As research and development efforts, special projects are separate from the continuing operations of the System and are therefore not included in the System operations budget. These relatively costly, short-term projects are expected to benefit both the System and the banking industry as a whole. A description of special projects for 1994 appears in appendix A.

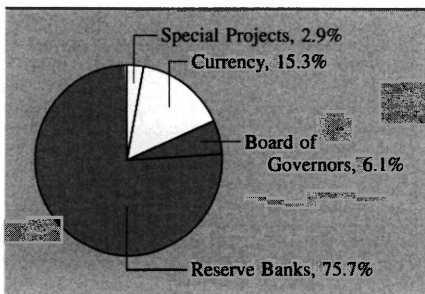
2. The Federal Reserve bears the cost associated with the printing of new currency at the Bureau of Engraving and Printing. Because this cost is determined largely by public demand for new currency, it is not included in Federal Reserve operating expenses. See appendix A.

Net Expenses

The System expects to recover 50.4 percent of the expenses it incurs during 1994. In addition to revenue from priced services, the budget includes other income for services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services and claims for reimbursement by the U.S. Treasury and other government agencies for fiscal agency services. After these items are deducted from budgeted 1994 operating expenses, the net expenses of the System show an increase of 7.0 percent over estimated 1993 net operating expenses (table 1.2).

Revenue from priced services represents fees that are set so as to recover the full cost of providing the services (as required by the Monetary Control Act of 1980), including the imputed cost of float and the return on capital that would have been received, and the taxes that would have been paid, had a commercial entity in the private sector furnished the services. Projected revenue from priced

Chart 1.1
Distribution of Expenses of the
Federal Reserve System, 1994¹



1. See text notes 1 and 2.

services is detailed in table 1.3; the constraint imposed on Federal Reserve budgets by the need to keep such services competitive and the calculation of fees are discussed in appendix A. "Other income" includes fees for such

services as the settlement of transfers among depository institutions and the wire transfer of funds between depository institutions and the Treasury. Claims for reimbursement represent the expenses incurred by Reserve Banks in

Table 1.1

Expenses of the Federal Reserve System for Operations, Special Projects, and Currency, 1992-94¹

Millions of dollars, except as noted

Entity and type of expense	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
<i>Operating expenses</i> ²					
Reserve Banks ³	1,589.3	1,719.4	1,808.2	8.2	5.2
Personnel	1,043.1	1,148.0	1,175.4	10.1	2.4
Nonpersonnel	546.2	571.4	632.8	4.6	10.7
Board of Governors ⁴	127.8	140.4	146.7	9.9	4.5
Personnel	94.2	104.1	108.9	10.5	4.6
Nonpersonnel	33.6	36.3	37.8	8.0	4.1
Total System operating expenses	1,717.1	1,859.8	1,954.9	8.3	5.1
Personnel	1,137.3	1,252.1	1,284.3	10.1	2.6
Nonpersonnel	579.8	607.7	670.6	4.8	10.4
Special projects ⁵	28.6	83.3	68.3
Currency ⁶	295.1	356.1	366.8	20.7	3.0

1. In this and subsequent tables in this volume, components may not sum to totals and may not yield percentages shown because of rounding.

2. Operating expenses reflect all redistributions for support and allocations for overhead and exclude capital outlays (as well as Reserve Bank special projects, which are shown separately).

3. For detailed information, see chapter 3.

4. Includes extraordinary items and expenses of the Office of Inspector General. For detailed information, see chapter 2.

5. See text note 1 and appendix A.

6. See text note 2 and appendix A.

Table 1.2

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 1992-94

Millions of dollars, except as noted

Item	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Total System operating expenses	1,717.1	1,859.8	1,954.9	8.3	5.1
LESS					
Revenue from priced services	760.8	761.3	772.7	.1	1.5
Other income ¹	5.3	5.3	5.4	*	1.9
Claims for reimbursement ²	180.4	187.1	207.2	3.7	10.7
EQUALS					
Net System operating expenses	770.6	906.1	969.6	17.6	7.0

1. Before January 1992, fees for transfer of U.S. Treasury book-entry securities were included in Other income; now they are forwarded directly to the U.S. Treasury general account.

2. Costs of fiscal agency services provided 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.

* Less than 0.05 percent.

Table 1.3

Revenue from Priced Services, 1992–94

Millions of dollars

Service	1992 actual	1993 estimate	1994 budget
Funds transfers and net settlement	85.6	86.9	86.5
Automated clearinghouse services	60.2	58.6	66.2
Commercial checks	578.4	589.3	593.6
Book-entry securities transfers	13.1	14.0	15.9
Definitive securities safekeeping ¹	3.1	1.6	...
Noncash collection	7.5	4.8	4.5
Special cash services	12.9	6.1	6.0
Total	760.8	761.3	772.7

1. This service has been discontinued.

providing fiscal agency services to the Treasury and other government agencies for which the agencies have agreed to reimburse the Federal Reserve.

Sources and uses of funds are presented in appendix B, and the audits of the System are listed in appendix C.

Trends in Expenses and Employment

From actual 1984 expenditures to budgeted 1994 amounts, the operating expenses of the Federal Reserve System

have increased an average of 5.5 percent a year in current dollars and 1.8 percent a year when adjusted for inflation (chart 1.2). Over the same ten-year period, System employment, including staff working on special projects, has increased by 1,814 (chart 1.3).

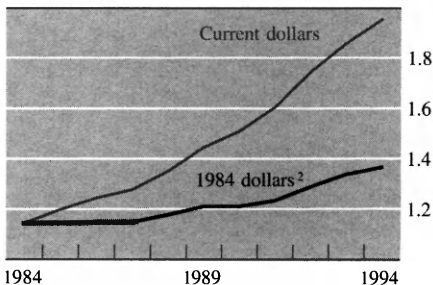
From 1982, when the transition to the requirements of the Monetary Control Act of 1980 was completed, through 1984, System expenses remained essentially flat when adjusted for inflation, and employment declined. In 1985, the staffing level was increased in a pronounced effort to strengthen supervision and regulation of member banks and bank holding companies. The System was able to partly offset the increase in staff through reductions in employment in other areas, mainly services to financial institutions and the public, support, and overhead.

In 1988, the Expedited Funds Availability Act, which requires the Federal Reserve to issue regulations to ensure the prompt availability of funds and the expeditious return of checks, became effective. Increases in staff throughout the System in 1988 and 1989 resulted from implementation of the provisions of this legislation. In 1991 and continu-

Chart 1.2

Operating Expenses of the Federal Reserve System, 1984–94¹

Billions of dollars



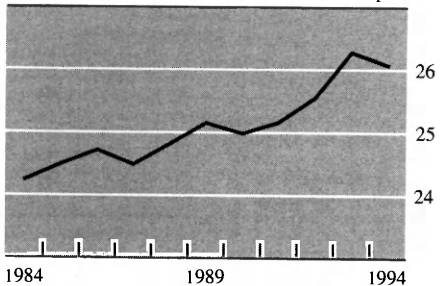
1. For 1993, estimate; for 1994, budget.

2. Calculated with the GDP price deflator.

Chart 1.3

Employment in the Federal Reserve System, 1984–94¹

Thousands of persons



1. For 1993, estimate; for 1994, budget. Includes special projects staff.

ing through projected 1994, spending on bank supervision rose, reflecting an increase in the number and complexity of examinations, greater attention to problem institutions, and the requirements of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and the the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

Operational Areas

For budgeting purposes, expenses of the Federal Reserve are classified according to the four major operational areas of the System (table 1.4). The costs of support and overhead (including Board expenditures for System policy direction and oversight, considered an overhead expense of the System) are redistributed or allocated to these four areas.

1994 Budget Initiatives

Several major initiatives that have an impact on budgets will continue or begin in 1994:

- Continuing expansion of supervision and regulation efforts due to greater responsibilities mandated by the FDICIA
- Office automation, and consolidation of System automation
- Upgrading of check-processing equipment, and preparation for and installation of new cash-processing equipment.

Partly offsetting the increased expenses associated with these initiatives will be lower expenses resulting from check volume losses due to implementation of same-day settlement requirements and from early retirement programs in several Districts. ■

Table 1.4

Operating Expenses of the Federal Reserve System, by Operational Area, 1992-94¹

Millions of dollars, except as noted

Operational area and entity	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
Monetary and economic policy	181.8	192.8	202.8	6.1	5.2
Reserve Banks	110.0	116.2	123.9	5.6	6.6
Board of Governors	71.8	76.6	78.9	6.7	3.0
Services to the U.S. Treasury and other government agencies ²	182.3	198.1	218.0	8.7	10.1
Services to financial institutions and the public	1,023.8	1,079.9	1,113.3	5.5	3.1
Reserve Banks	1,021.0	1,076.4	1,109.5	5.4	3.1
Board of Governors	2.8	3.5	3.8	25.0	8.6
Supervision and regulation	329.2	389.0	420.8	18.2	8.2
Reserve Banks	276.0	328.7	356.8	19.1	8.5
Board of Governors	53.2	60.3	64.0	13.3	6.1
Total	1,717.1	1,859.8	1,954.9	8.3	5.1
Reserve Banks	1,589.3	1,719.4	1,808.2	8.2	5.2
Board of Governors ³	127.8	140.4	146.7	9.9	4.5

1. Operating expenses reflect all redistributions for support and allocations for overhead and exclude capital outlays and special projects. The operational area unique to the Board of Governors, System policy direction and oversight, which is shown separately in chapter 2, has been allocated across the operational areas listed here. As

a result, the numbers for the operational areas in chapter 2 are not the same as the numbers shown in this table.

2. Reserve Banks only. The Board of Governors does not provide these services.

3. Includes expenses of the Office of Inspector General and extraordinary items.

Chapter 2

Board of Governors

The 1994 budget of the Board of Governors provides \$142.8 million for operations, \$1.0 million for extraordinary items (projects of a unique or one-time nature), and \$3.0 million for the Office of Inspector General. The Board has authorized 1,708 staff positions for the operational areas and 32 positions for the Office of Inspector General; no positions are required for the extraordinary items. The total budget of \$146.8 million represents an increase of \$6.3 million, or approximately 4.5 percent, over estimated 1993 expenses. The total of 1,740 positions is a net increase of thirteen over the number authorized at the end of 1993.

Overview of the Budget

Board Operations

The operations budget of \$142.8 million, which covers the Board's four operational areas (described in the Introduction), is 4.2 percent greater than estimated 1993 expenses, the smallest percentage increase since 1987. Increased expenses to maintain operations at the 1993 level—expenses such as merit pay raises, rate increases for fringe benefits, the full-year cost of office space leased in 1993, space for training, and higher costs of goods and services—account for 1.8 percentage points of the increase. Initiatives to carry out new mandates, particularly in support of the supervision and regulation operational area, and to improve general operations account for the remaining 2.4 percentage points.

Sixteen new staff positions have been authorized, and three have been eliminated, for a net increase of thirteen.

Eight of the new positions support the supervision and regulation operational area, three are for System policy direction and oversight, and a net of two have been added for support and overhead.

Extraordinary Items

Inclusion of certain unique or one-time projects in the operations budget can result in undue swings in the size of the budget and create competition for funds needed to carry out the Board's basic mission; therefore, for the last few years, funds for these "extraordinary items" have been set apart from the Board's operations budget. For 1994, \$1.0 million has been budgeted for extraordinary items.

Included in the 1994 budget are funds for completion of a survey of small business finances, which was begun in 1993 to gather information from small and minority-owned businesses on their financial relationships, credit experiences, lending terms and conditions, income, and balance sheets. The budget also provides funds to begin a survey of consumer finances, which will be completed in 1995, and for hosting the 1994 meeting of the Governors of Central Banks of the American Continent.

Office of Inspector General

The 1994 budget for the Office of Inspector General of \$3.0 million is 4.9 percent greater than estimated 1993 expenses. The increase covers higher costs for salaries and benefits as well as full-year staffing of new positions authorized in the 1993 budget that were not filled for the entire year.

Operations Budget

The Board operations budget for 1994 can be broken down into two major areas: current-level activities—funds required to maintain Board operations at the 1993 level; and initiatives—funds for new projects and activities in 1994. The following paragraphs describe funding for these two areas. The overall operations budget, detailed by Board division, is shown in table 2.1, and the number of authorized staff positions budgeted to support Board operations are shown in table 2.2.

Current-Level Activities

The 1994 budget increase necessary to maintain Board operations at the 1993 level is \$2.6 million. Personnel costs for current positions are increasing \$3.9 million, and the cost of current goods and services is declining \$1.8 million.

The increase in personnel costs is largely for salaries. The budget includes \$2.1 million to provide staff salary increases averaging 2.5 percent. A higher level of employment is occurring as positions that were added in earlier budgets to meet a growing workload are

Table 2.1

Expenses of the Board of Governors, by Division, Office, or Special Account, 1992–94

Dollars, except as noted

Division, office, or special account	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
Board Members	3,729,505	4,262,253	4,288,735	532,748	14.3	26,482	.6
Secretary	3,492,070	3,722,976	3,778,847	230,906	6.6	55,871	1.5
Legal	5,805,505	6,745,646	7,233,537	940,141	16.2	487,891	7.2
Research and Statistics ..	23,407,067	23,701,713	23,687,386	294,646	1.3	-14,327	-.1
International Finance	8,418,640	8,631,737	8,910,645	213,097	2.5	278,908	3.2
Banking Supervision and Regulation	16,126,848	19,195,533	20,844,051	3,068,685	19.0	1,648,518	8.6
Human Resources Management	4,218,878	4,674,119	4,728,275	455,241	10.8	54,156	1.2
Support Services	21,202,198	23,698,297	24,407,425	2,496,099	11.8	709,128	3.0
Controller	1,989,768	2,202,679	2,449,119	212,911	10.7	246,440	11.2
Consumer and Community Affairs	3,818,638	4,438,389	4,648,660	619,751	16.2	210,271	4.7
Staff Director for Management	6,654,998	5,389,229	5,968,063	-1,265,769	-19.0	578,834	10.7
Reserve Bank Operations and Payment Systems	11,077,191	12,496,204	12,765,725	1,419,013	12.8	269,521	2.2
Information Resources Management (IRM) ..	22,198,103	24,712,852	24,889,331	2,514,749	11.3	176,479	.7
Monetary Affairs	8,520,621	8,220,452	8,263,013	-300,169	-3.5	42,561	.5
Special projects	2,533,797	1,261,883	2,659,848	-1,271,914	-50.2	1,397,965	110.8
IRM income account ¹ ..	-20,383,804	-16,343,204	-16,690,303	4,040,600	19.8	-347,099	-2.1
Total, Board operations	122,810,023	137,010,758	142,832,357	14,200,735	11.6	5,821,599	4.2
Extraordinary items	3,147,319	598,000	980,000	-2,549,319	...	382,000	...
Office of Inspector General	1,930,243	2,868,304	3,007,774	938,061	48.6	139,470	4.9

1. Income from various Board divisions for use of central IRM resources.

filled. The full-year costs in 1994 of the salaries and fringe benefits for new positions filled during 1993 account for \$1.6 million, and fewer vacancies, planned reclassifications, and other salary actions account for \$0.2 million. The expense for fringe benefits is increasing \$0.6 million, primarily because of increases in the cost of health insurance for retired employees. These increases are being partially offset by additional income of \$0.6 million associated with the System's earlier decision to share the development costs of the National Information Center (NIC) with the Reserve Banks.

The cost of goods and services necessary to maintain Board operations at the 1993 level is declining by \$1.8 million in 1994. One-time 1993 costs for automation and for facilities renovation, the Board's program (in conjunction with that of the Administra-

tion) to reduce administrative expenses, less routine facilities maintenance, and reimbursement by the Reserve Banks for use of the mainframe computer are helping to reduce expenses. These decreases outweigh normal price increases, the cost of space for training, higher communications costs associated with joining the System's communications network, and the expense of placing the Federal Reserve Regulatory Service (a publication detailing all Federal Reserve regulations) on diskette.

Initiatives

The 1994 budget provides \$3.2 million for initiatives, which is less than the \$3.8 million required in 1993. The budget funds new positions as well as enhancements to improve facilities and increase productivity. Investments in automation and communications are

Table 2.2

Positions Authorized at the Board of Governors, by Division or Office, 1992-94

Division or office	1992 actual	1993 estimate	1994 budget	Change	
				1992 to 1993	1993 to 1994
Board Members	38	38	40	0	2
Secretary	59	60	60	1	0
Legal	84	84	85	0	1
Research and Statistics	269	276	276	7	0
International Finance	106	110	110	4	0
Banking Supervision and Regulation	239	239	244	0	5
Human Resources Management	48	48	48	0	0
Concern ¹	22	22	22	0	0
Support Services	259	260	260	1	0
Controller	31	31	31	0	0
Consumer and Community Affairs	53	53	53	0	0
Staff Director for Management	7	11	13	4	2
Reserve Bank Operations and Payment Systems	119	126	127	7	1
Information Resources Management ..	270	271	273	1	2
Monetary Affairs	63	66	66	3	0
Special projects	1	0	0	-1	0
Total, Board operations	1,668	1,695	1,708	27	13
Office of Inspector General	22	32	32	10	0

1. EEO Concern positions managed by the Division of Human Resources Management.

necessary to continue implementation of the Board's ongoing automation–telecommunications plan, which has been critical in limiting the need to add staff as the Board's workload continues to grow.

Operations Budget by Object of Expense

Personnel expenses account for about 75 percent of the operations budget (table 2.3). The increase in the 1994 budget for salaries, \$3.3 million, includes increases for current personnel, the full-year salary costs in 1994 for positions added in 1993, and funding for the thirteen positions added for 1994. The increases for retirement and insurance costs cover increases for fringe benefits, including a major increase in the cost of health insurance for retired employees.

The 1994 budget for goods and services is \$1.3 million, or 3.6 percent, greater than estimated 1993 expenses. Telecommunications expenses are increasing as a result of the Board's participation in the System's standard communications network, Fednet. The increase for repairs and alterations is due to additional building modifications needed to bring the Board into compliance with the Americans with Disabilities Act. The budget for publications is increasing to allow for distribution of the Federal Reserve Regulatory Service on diskette. Travel expenses are continuing to increase owing to the high level of travel required to resolve supervision and regulation issues.

These increases, the cost of new training space, and other minor increases are being largely offset by one-time costs that were included in the 1993 budget but not in the 1994 budget and the additional income from the

FFIEC (Federal Financial Institutions Examination Council), the Reserve Banks, and other regulatory agencies for use of the Board's mainframe computer.

Operations Budget by Operational Area

The Board's operations budget supports four broadly defined areas of operation: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and System policy direction and oversight. Data on expenses and positions for each operational area for 1992–94 are shown in tables 2.4 and 2.5.

Monetary and Economic Policy

The 1994 budget for monetary and economic policy is \$61,467,000, an increase of \$1,446,000, or 2.4 percent, over estimated 1993 expenses. The relatively small increase for this operational area is, in part, associated with plans (in support of the Administration's cost-reduction program) to leave unfilled several authorized staff positions. The budget provides increased funding for automation initiatives to help the divisions that support this operational area meet a larger workload. Longer-term research, as well as analysis of current conditions, is greatly facilitated by the ready availability of high-powered desktop computers and associated software. Projects expected to contribute to a larger workload in 1994 include analyses of the impact of significant events in Europe, Latin America, and Asia on economic activity and exchange markets and the impact of international capital movements and developments at home and abroad on

U.S. exports and imports. Other analyses will focus on the regulatory structure of the government securities market, changes in the payment mechanism, derivative instruments and their effect on economic data, and the monetary aggregates.

Supervision and Regulation

The 1994 budget for supervision and regulation is \$51,404,000, an increase of \$3,302,000, or 6.9 percent, over estimated 1993 expenses. The costs of the National Information Center account for

Table 2.3

Operating Expenses of the Board of Governors, by Object of Expense, 1992–94

Dollars, except as noted

Object of expense	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
<i>Personnel</i>							
Salaries	79,624,065	87,430,000	90,724,562	7,805,935	9.8	3,294,562	3.8
Retirement	6,297,728	7,068,993	7,621,016	771,265	12.2	552,023	7.8
Insurance	6,701,386	7,334,322	8,050,090	632,936	9.4	715,768	9.8
Total	92,623,179	101,833,315	106,395,668	9,210,136	9.9	4,562,353	4.5
<i>Goods and services</i>							
Travel	3,866,956	4,598,177	4,803,382	731,221	18.9	205,205	4.5
Postage and expressage	1,116,289	1,233,334	1,257,500	117,045	10.5	24,166	2.0
Telecommunications	1,799,049	1,724,160	2,147,000	-74,889	-4.2	422,840	24.5
Printing and binding	1,102,529	1,168,398	1,169,200	65,869	6.0	802	.1
Publications	-487,119	-328,400	-189,100	158,719	32.6	139,300	42.4
Stationery and supplies	766,724	915,922	917,205	149,198	19.5	1,283	.1
Software	2,789,229	3,490,029	3,500,748	700,800	25.1	10,719	.3
Furniture and equipment	1,185,164	1,479,388	1,213,043	294,224	24.8	-266,345	-18.0
Rentals	-923,096	446,902	490,005	1,369,998	148.4	43,103	-9.6
Books and subscriptions	695,953	795,050	882,268	99,097	14.2	87,218	11.0
Utilities	1,805,394	1,842,000	1,979,000	36,606	2.0	137,000	7.4
Building repairs and alterations	2,071,284	1,402,475	1,581,050	-668,809	-32.3	178,575	12.7
Building repairs and maintenance	1,969,385	2,254,420	2,365,036	285,035	14.5	110,616	4.9
Contingency Processing Center expenses	263,578	181,000	167,900	-82,578	-31.3	-13,100	-7.2
Contractual professional services	4,491,285	5,855,926	5,598,394	1,364,641	30.4	-257,532	-4.4
Tuition/registration and membership fees	842,216	1,256,119	1,187,360	413,903	49.1	-68,759	-5.5
Subsidies and contributions	735,835	729,795	921,395	-6,040	-.8	191,600	26.3
Depreciation	6,010,708	6,611,806	7,169,491	601,098	10.0	557,685	8.4
All other	85,481	-479,058	-724,188	-564,539	-660.4	-245,130	-51.2
Total	30,186,844	35,177,443	36,436,689	4,990,599	16.5	1,259,246	3.6
Total, Board operations	122,810,023	137,010,758	142,832,357	14,200,735	11.6	5,821,599	4.2
Extraordinary items	3,147,319	598,000	980,000	-2,549,319	...	382,000	...
Office of Inspector General	1,930,243	2,868,304	3,007,774	938,061	48.6	139,470	4.9

part of the relatively large increase. Other major factors are the full-year costs of new positions added in 1993 to support enhanced supervision of foreign institutions and foreign branches of U.S. institutions; Systemwide actions to improve the examiner training program; and increases in foreign travel in connection with international banking and to meet demands stemming from the increased complexity of the banking system.

Also contributing to the larger supervision and regulation budget is the continuing need to develop and improve data and analytical tools to meet the requirements of the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). Finally, assessments for participation in the FFIEC and the Board's share of the production costs for the Uniform Bank Performance Report are contributing to the increase.

and the public is \$3,000,000, an increase of \$209,000, or 7.5 percent, over estimated 1993 expenses. This operational area encompasses programs responsible for payments activities and related regulatory and policy initiatives. It also includes oversight of the development of new, consolidated applications intended to improve the efficiency of Reserve Bank automated clearinghouse, book-entry securities transfer, and funds transfer services. The 1994 budget increase is due in part to the full-year costs of positions added in 1993 to enhance analysis and oversight of domestic and foreign large-value payment systems. Also contributing to the increase is an emphasis on analysis and oversight of private-sector, small-dollar electronic payment systems, including developments in automated teller machine (ATM) networks, point-of-sale (POS) networks, and electronic data interchange (EDI).

Services to Financial Institutions and the Public

The 1994 budget for oversight of Reserve Bank services to financial institutions

System Policy Direction and Oversight

The 1994 budget for System policy direction and oversight is \$26,961,000,

Table 2.4

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 1992–94¹

Thousands of dollars, except as noted

Type of expense	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
Monetary and economic policy	59,086	60,021	61,467	935	1.6	1,446	2.4
Supervision and regulation ..	39,100	48,102	51,404	9,002	23.0	3,302	6.9
Services to financial institutions and the public	2,250	2,791	3,000	541	24.0	209	7.5
System policy direction and oversight	22,374	26,097	26,961	3,723	16.6	864	3.3
Total, Board operations ...	122,810	137,011	142,832	14,201	11.6	5,821	4.2
Extraordinary items	3,147	598	980	-2,549	...	382	...
Office of Inspector General ..	1,930	2,868	3,008	938	48.6	140	4.9

1. Operating expenses include allocations for support and overhead.

an increase of \$864,000, or 3.3 percent, over estimated 1993 expenses. This operational area encompasses supervision of Board and Reserve Bank programs. The increase for 1994 is due mainly to the full-year costs of new positions added in 1993 and the costs of consulting services needed to assist in a scheduled review of FRAS (Federal Reserve Automation Services) electronic data processing operations.

Capital Budget

The Board's 1994 capital budget of \$7.1 million provides \$5.3 million for initiatives and \$1.8 million to complete phased projects approved in the 1993 budget. The budget covers expenditures to enhance office automation and telecommunications, improve facilities, and replace furniture and equipment.

The budget provides approximately \$3.1 million to improve automation capabilities, including implementation of the Administrative Systems Automation Project (ASAP), improvement of data storage equipment to extend the life of the mainframe computer, enhancement of records management hardware

and software, installation of upgrades to continue the migration to distributed processing, and expansion of the Board's premiseswide network to enhance the flow of an increasingly large volume of data between the mainframe and distributed networks.

The budget also includes approximately \$1.2 million to replace the Board's Federal Reserve Communication System (FRCS-80) equipment and to implement the System's standard communications network, Fednet. Approximately \$0.6 million in initiatives is included to provide for critical projects associated with maintaining the integrity of the Board's two main buildings; ongoing projects, which account for \$1.8 million, include improvement of the heating, ventilation, and air conditioning system in the Eccles Building and repair of the floors in the garage.

The remaining \$0.4 million is budgeted for smaller projects, including a training project intended to increase Board employment of physically disabled individuals, pilot projects to test new technology, purchase of equipment to enhance internal communications and

Table 2.5

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1992-94

Type of expense	1992 actual	1993 estimate	1994 budget	Change, 1992 to 1993		Change, 1993 to 1994	
				Amount	Percent	Amount	Percent
Monetary and economic policy	417	436	436	19	4.6	0	.0
Supervision and regulation .	372	369	377	-3	-.8	8	2.2
Services to financial institutions and the public	22	21	21	-1	-4.5	0	.0
System policy direction and oversight	157	164	167	7	4.5	3	1.8
Support and overhead	700	705	707	5	.7	2	.3
Total, Board operations ...	1,668	1,695	1,708	27	1.6	13	.8
Office of Inspector General .	22	32	32	10	45.5	0	.0

improve storage of and access to data, and other miscellaneous smaller projects.

Trends in Expenses and Employment

The increase in the 1994 operations budget, 4.2 percent, is lower than the 8.4 percent average annual rate of increase over 1989–94 and the 6.4 percent average annual increase over 1984–94. The 1994 increase, the smallest percentage increase since 1987, is targeted mainly at maintaining operations at the 1993 level and meeting mandated enhancements of the Board’s ongoing mission, particularly in support of the supervision and regulation operational

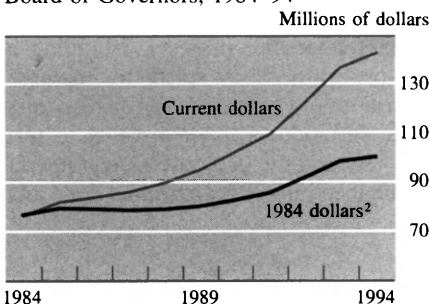
area. Charts 2.1–2.5 show trends for the period from 1984.

Adjusted by the GDP deflator, the 1994 increase in the operations budget becomes 1.8 percent. This compares favorably with the 2.7 percent average annual increase since 1984 and the 5.2 percent average annual increase since 1989. The higher average annual increase over the past five years has been due mainly to staff increases (mostly associated with the impact of FIRREA and FDICIA and problems in the banking industry), higher salaries resulting from the new compensation program, the acquisition of space to accommodate additional staff, and expanded training requirements for the supervision and regulation function.

The operations budget authorizes 1,708 staff positions, an increase of twenty-five over the number authorized in the 1993 budget. Twenty-eight of the authorized positions are longstanding positions for summer interns and local disadvantaged youths, and twenty-two of the remaining 1,680 positions provide support to the FFIEC for HMDA processing on a reimbursable basis. Ongoing changes in technology have had a

Chart 2.1

Operating Expenses of the Board of Governors, 1984–94¹



Year	Expenses in millions of	
	Current dollars	1984 dollars
1984	76.5	76.5
1985	82.0	79.1
1986	84.0	78.9
1987	86.2	78.4
1988	89.9	78.8
1989	95.3	80.0
1990	102.4	82.5
1991	109.8	85.4
1992	122.8 ³	91.7
1993	137.0	98.4
1994	142.8	100.2

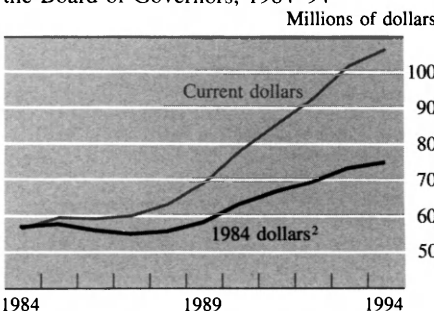
1. Excludes the Office of Inspector General and extraordinary items. For 1993, estimate; for 1994, budget.

2. Calculated with the GDP price deflator.

3. Number slightly revised from earlier edition.

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1984–94¹



1. Excludes the Office of Inspector General. For 1993, estimate; for 1994, budget.

2. Calculated with the GDP price deflator.

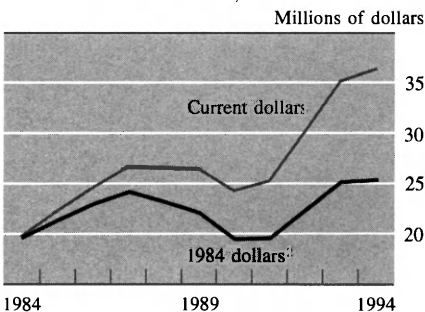
great impact on the mix of work in central data processing operations and distributed processing areas, resulting in a significant decrease in staff positions. Since 1984, the number of positions has declined by seventy-eight in the Division of Information Resources Management and nineteen in the Division of Support Services. These decreases have been offset, however, by an increase of 107 positions in the Division of Banking Supervision and Regulation and nineteen in the Legal Division. The 1,680 positions authorized for 1994 represents a net increase of seventeen since 1984; over the same period, employment has increased by forty-eight, to a total of 1,636, as the number of vacant positions has declined.

Extraordinary Items

Three projects are covered by the Board's extraordinary items budget. One project is completion of a survey of small business finances begun in 1993. The data obtained from the survey will be used for many purposes, including satisfaction of the requirement of section 477 of the FDICIA that the Board

Chart 2.3

Expenses for Goods and Services at the Board of Governors, 1984-94¹

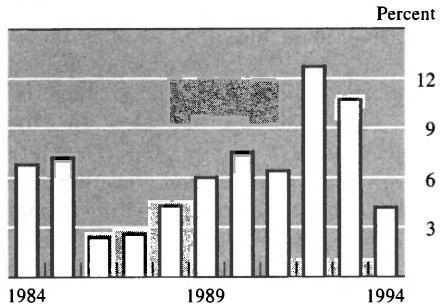


1. Excludes the Office of Inspector General and extraordinary items. For 1993, estimate; for 1994, budget.

2. Calculated with the GDP price deflator.

Chart 2.4

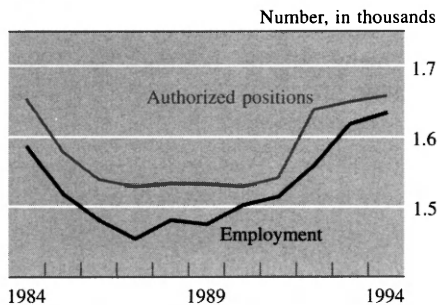
Annual Rate of Change in Operating Expenses of the Board of Governors, 1984-94¹



1. Excludes the Office of Inspector General and extraordinary items. For 1993, estimate; for 1994, budget.

Chart 2.5

Employment and Authorized Positions at the Board of Governors, 1984-94¹



Year	Employment	Authorized positions
1984	1,588	1,653
1985	1,521	1,580
1986	1,484	1,540
1987	1,457 ²	1,529
1988	1,484	1,534
1989	1,478	1,533
1990	1,505	1,529
1991	1,517	1,542 ²
1992 ²	1,563	1,639
1993 ²	1,621	1,650
1994	1,636	1,658

1. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General, which for 1994 number 28 and 32 positions respectively; 1994 figures also exclude 22 positions that provide support to the FFIEC for processing of HMDA data. For 1993, estimate; for 1994, budget.

2. Numbers slightly revised from earlier edition.

make data on credit for small businesses available annually. The 1994 cost of the survey is \$800,000.

A second project is a survey of consumer finances, which will gather information on household income, assets, debts, pensions, employment, use of financial services, and other characteristics. The \$80,000 budgeted for the project for 1994 will be used to begin to design the sample and develop the survey questionnaire. Assuming Board approval, the survey will be conducted in 1995, and additional funds will be budgeted at that time.

The third project covered by the extraordinary items budget is hosting of the 1994 meeting of the Governors of Central Banks of the American Continent. The site of this annual meeting rotates among the member countries; the United States acted as host in 1969 and 1983. Funds in the amount of \$100,000 are budgeted for hosting the 1994 meeting. ■

Chapter 3

Federal Reserve Banks

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

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

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

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

3. For presentation purposes, FRAS staff is

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

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

Major Initiatives

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

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

included with the Automation Consolidation special project.

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

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

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

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

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

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

Table 3.1

Expenses and Employment at the Federal Reserve Banks, 1993 and 1994¹

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

1. Excludes capital outlays.

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

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

Table 3.2

Operating Expenses of the Federal Reserve Banks, by Object, 1992-94¹

Millions of dollars, except as noted

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

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

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

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

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

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

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

1994 Budget Objective

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

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

Table 3.3

Major Initiatives of the
Federal Reserve Banks, 1994

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

*Table 3.4*1993 Budget Objective and Budget of the Federal Reserve Banks¹

Percent change from 1993 expenses

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

1. See data on expenses in table 3.1.

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

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

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

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

Operational Areas

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

Monetary and Economic Policy

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

*Table 3.5*Operating Expenses of the Federal Reserve Banks, by Operational Area, 1992-94¹

Thousands of dollars, except as noted

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

1. Excludes special projects.

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

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

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

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

Services to Financial Institutions and the Public

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

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1992-94¹

Average number of personnel, except as noted²

Activity	1992 actual	1993 estimate	1994 budget	Percentage change	
				1992 to 1993	1993 to 1994
<i>Operational areas</i>					
Monetary and economic policy	776	762	756	-1.8	-.9
Services to the U.S. Treasury and other government agencies	1,832	1,849	1,860	.9	.6
Services to financial institutions and the public	8,878	8,612	8,348	-3.0	-3.1
Supervision and regulation	2,587	2,945	3,042	13.9	3.3
<i>Support and overhead³</i>					
Support	4,711	4,814	4,679	2.2	-2.8
Overhead	4,998	5,227	5,237	4.6	.2
Total	23,782	24,210	23,922	1.8	-1.2

1. Excludes special project and FRAS ANP.

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

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

Table 3.7

Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1992-94¹

Thousands of dollars, except as noted

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

1. Excludes special projects.

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

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

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

Table 3.8

Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1992-94¹

Thousands of dollars, except as noted

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

1. Excludes special projects.

Table 3.9

Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1992-94¹

Thousands of dollars, except as noted

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

1. Excludes special projects.

* Less than 0.05 percent.

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

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

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

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

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

Supervision and Regulation

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

Objects of Expense

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

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

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1992–94¹

Thousands of dollars, except as noted

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

1. Excludes special projects.

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

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

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

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

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

Table 3.11

Operating Expenses of the Federal Reserve Banks, by Object, 1992-94¹

Thousands of dollars, except as noted

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

1. Excludes special projects.

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

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

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

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

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

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

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

Capital Outlays

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

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

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

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

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

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

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

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

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

Trends in Expenses and Employment

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

Table 3.12

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

Thousands of dollars, except as noted

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

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

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

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

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

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

Volume and Unit Costs

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

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

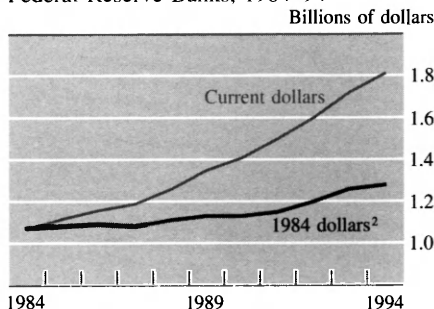
1993 Budget Performance

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

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

Chart 3.1

Operating Expenses of the
Federal Reserve Banks, 1984–94¹

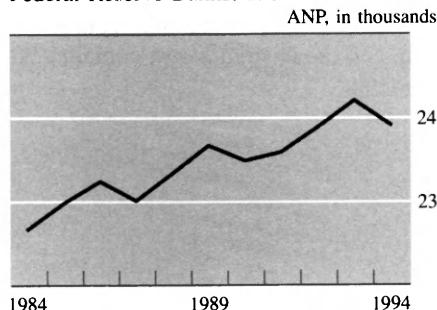


1. For 1993, estimate; for 1994, budget.

2. Calculated with the GDP price deflator.

Chart 3.2

Employment at the
Federal Reserve Banks, 1984–94¹



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

*Table 3.13*Volume and Unit Costs of Measured
Federal Reserve Bank Services

Percentage change from 1993 to 1994

Service	Volume	Unit cost
Payments	-.3	1.5
Commercial check	-3.3	4.5
Automated clearinghouse	14.0	-14.0
Funds transfer4	.4
Other checks	1.6	9.8
Cash ¹	2.1	4.6
Fiscal	-4.3	9.6
Securities and noncash	-.8	2.3
All measured services	-.1	2.7

1. Includes currency and coin services.

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

Part II

Special Analysis

Chapter 4

The Federal Reserve's Consumer and Community Affairs Responsibilities

Since the late 1960s the Federal Reserve, authorized by the Congress, has been involved in implementing an ever-growing number of federal laws intended to protect consumers, including bank customers, in credit and other financial transactions (see list of consumer protection laws). In the mid-1970s the Federal Reserve established a separate division, the Division of Consumer and Community Affairs, to handle its consumer affairs responsibilities. Among these responsibilities are writing and interpreting regulations to carry out many of the major consumer protection laws, reviewing bank compliance with the regulations, responding to inquiries and complaints about compliance from the public, and addressing issues of state and federal jurisdiction. Board members frequently testify before the Congress on consumer protection issues, and staff members participate in meetings and conferences focused on consumer financial services.

In its efforts, the Federal Reserve is advised by a Consumer Advisory Council, whose members represent the interests of consumers, community groups, and creditors nationwide. The council meets three times a year at the Federal Reserve in Washington, D.C.; its meetings are open to the public.

Enforcement of Consumer Protection Laws

For many years, the Federal Reserve has conducted a specialized examination program to ensure that federal consumer protection laws are carried out. Its

responsibilities for enforcement generally extend only to state-chartered banks that are members of the Federal Reserve System. Each Federal Reserve Bank has on its staff specially trained examiners who regularly evaluate the performance of banks in its District. The examinations generally are conducted every eighteen months; poorly rated banks are examined more frequently, and highly rated banks are examined every twenty-four months.

Because states also have enacted laws protecting consumers, the Federal Reserve at times is called on to determine whether a state law is preempted by federal provisions. It also acts on requests for exemption from federal laws when state and federal requirements are similar and enforcement at the state level is adequate.

Consumer Complaint Program

The Federal Reserve operates a System-wide program to respond to inquiries and complaints from the public about consumer protection issues involving financial institutions. Complaints involving state member banks are investigated, and complaints involving other institutions are referred to the appropriate regulatory agency. Special procedures are followed in responding to and investigating complaints alleging illegal discrimination in lending.

Information on consumer inquiries and complaints is maintained in a data base that alerts the Federal Reserve to potential problems at individual institutions and assists the division in carrying

out its responsibilities, under the Federal Trade Commission Improvement Act, to identify potentially unfair or deceptive bank practices.

More than 2,500 complaints were lodged with the Federal Reserve in 1992, approximately 1,000 of them against state member banks. The complexity of the complaints has increased markedly over the past several years, paralleling the significant growth in the types and complexity of financial services products available to consumers.

Growth of Responsibilities

While expansion of financial services products has increased demands on the division, the main factor in the growth of the Consumer and Community Affairs Division's workload in recent years has been the greater focus, nationwide, on community reinvestment and fair lending issues.

Community Reinvestment

In accord with the Community Reinvestment Act (CRA), the Federal Reserve has taken an increasingly active role in encouraging banks to work with community organizations to promote local economic development. A bank's efforts to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, are reviewed as part of the Federal Reserve's regular examination process. The institution's performance under the CRA is also taken into account when applications for acquisitions and mergers are being evaluated. The public may protest approval of an application on the basis of the institution's CRA record, and public scrutiny of applications has

intensified as community groups have become increasingly concerned about lending in low- and moderate-income neighborhoods.

Each Reserve Bank has on its staff a community affairs officer who is familiar with credit needs in the communities served by institutions in the District. Among the officer's responsibilities is fostering communications among banking institutions, government agencies, and community groups. Through newsletters and other publications, seminars, workshops, and conferences, the Federal Reserve provides information to banks and bank holding companies about private sector economic initiatives, community development finance, public-private partnerships, and federal and state development programs. Staff members also work directly with individual bankers and community development representatives to promote community lending.

Home Mortgage Lending

Under 1989 revisions of the Home Mortgage Disclosure Act, lenders are now required to report more information than before about their lending activities, including the race, gender, and income level of all applicants for home mortgages, not just those whose applications were approved. This additional information has led to new demands for analysis, enhanced examination and complaint investigation efforts, and the development and implementation of new initiatives to address the serious concerns raised by the data.

Analysis of the data for 1991 and 1992 has shown significant differences in loan denial rates among racial and ethnic groups. These findings have resulted in numerous new initiatives, including the following:

- increased attention to the lending records of institutions that seek Federal Reserve approval of merger and acquisition applications

- stepped-up efforts to encourage and facilitate lending in low- and moderate-income communities

- expanded coordination with other government agencies that are involved in fair lending issues, particularly the Department of Housing and Urban Development and the Department of Justice

- accelerated efforts to develop responsive policies and procedures for handling potential fair lending problems and violations

- development of systems to analyze institutions' lending records

- intensified efforts to improve public access to institutions' lending data

- development of specialized training in fair lending for System personnel involved in examinations and complaint analysis

- development of new, proposed rules concerning institutions' responsibilities to invest in their communities.

Congressional oversight of the financial services area—in particular, fair lending and community reinvestment issues—has increased dramatically. Federal Reserve staff members routinely provide information and analyses to the Congress, and Board members are frequently called on to testify before congressional committees. With fair lending concerns the focus of national attention and action, outreach efforts, conference participation, and working with lending institutions, community groups, and others in the private sector represent serious demands on Federal Reserve staff. Consequently, to ensure that quality analysis and deadlines are not compromised, staff increases have been authorized for the Division of Consumer and Community Affairs over the past several years. ■

Consumer protection laws for which the Federal Reserve has implementation or enforcement responsibilities

Law	Highlights of provisions
Community Reinvestment Act	Encourages financial institutions to help meet the credit needs of their communities, particularly low- and moderate-income neighborhoods; requires institutions to specify the services they offer and to identify their lending area. The Federal Reserve assesses a bank's performance in meeting its obligations to its community and takes that assessment, along with other factors, into account when considering applications for mergers, acquisitions, and formation of bank holding companies.
Consumer Leasing Act	Requires that institutions disclose the cost and terms of consumer leases (such as automobile leases.)

Law	Highlights of provisions
Electronic Fund Transfer Act	Establishes rules concerning a consumer's liability for unauthorized use of a debit card and the unsolicited issuance of debit cards by financial institutions. (Covers transactions at automated teller machines; telephone bill-payment plans; point-of-sale terminals in stores; and preauthorized transfers to and from a customer's account, such as direct deposit of salary and social security payments.)
Equal Credit Opportunity Act	Prohibits discrimination in credit transactions on several bases, including gender, marital status, age, race, religion, color, and national origin; requires creditors to grant credit to qualified individuals without requiring cosignature by spouses, to inform unsuccessful applicants in writing of the reasons credit was denied, and to allow married individuals to have credit histories on jointly held accounts maintained in the names of both spouses.
Expedited Funds Availability Act	Dictates when depository institutions must make consumers' deposited funds available to them; requires institutions to disclose to their customers their policies on funds availability.
Fair Credit Billing Act	Specifies how creditors must respond to billing complaints from consumers; imposes requirements to ensure that creditors handle credit accounts fairly and promptly. (Applies mainly to revolving and credit card accounts.)
Fair Credit and Charge Card Disclosure Act	Requires that applications for credit cards that are sent through the mail, solicited by telephone, or made available to the public (such as at counters in retail stores or in catalogs) contain information about key terms of the account.
Fair Credit Reporting Act	Protects consumers against inaccurate or misleading information in credit files maintained by credit reporting agencies; requires credit reporting agencies to allow credit applicants to correct erroneous reports.
Fair Debt Collection Practices Act	Prohibits abusive debt collection practices. (Applies to banks that function as debt collectors for other entities.)
Fair Housing Act	Prohibits discrimination in the extension of housing credit on the basis of race, color, religion, national origin, gender, handicap, or familial status.
Flood Disaster Protection Act	Requires flood insurance on property in a flood hazard area that comes under the National Flood Insurance Program.

Law	Highlights of provisions
Federal Trade Commission Improvement Act	Authorizes the Federal Reserve to identify unfair or deceptive acts or practices by banks and to issue regulations to prohibit them. Using this authority, the Federal Reserve has adopted rules that restrict certain practices in the collection of delinquent consumer debts, for example, practices related to late charges, the responsibilities of cosigners, and wage assignments.
Home Equity Loan Consumer Protection Act	Requires creditors to provide detailed information about a credit plan secured by a consumer's dwelling, as well as a brochure explaining home equity loans in general; restricts the terms of home equity loan plans; regulates advertising of home equity loans.
Home Mortgage Disclosure Act	Requires mortgage lenders to publicly disclose the geographic distribution of their mortgage and home improvement loans as well as their loan approval rates by gender, race, and certain other applicant characteristics; directs the Federal Financial Institutions Examination Council (of which the Federal Reserve is a member) to make summaries of these data available to the public.
Real Estate Settlement Procedures Act	Requires that the nature and costs of the real estate settlement process be disclosed to borrowers; protects borrowers against certain abusive practices, such as kick-backs; limits the use of escrow accounts.
Right to Financial Privacy Act	Protects bank customers' financial records from unlawful scrutiny by federal agencies; specifies procedures government authorities must follow when they seek information about a customer's financial records from a financial institution.
Truth in Lending Act	Requires uniform methods for computing the cost of credit and for disclosing credit terms; gives borrowers the right to cancel certain loans secured by their residences; prohibits the unsolicited issuance of credit cards and limits cardholder liability for unauthorized use.
Women's Business Ownership Act	Extends to applicants for business credit certain protections afforded consumer credit applicants, such as the right to an explanation for credit denial.
Truth in Savings Act	Requires that depository institutions disclose to depositors certain information, including the annual percentage yield calculated in a uniform manner; regulates advertising of savings accounts; prohibits certain methods of calculating interest.

Appendixes

Appendix A

Special Categories of System Expense

Fees for priced services and treatment of capital outlays are explained in this appendix. Also described are Reserve Bank special projects for 1994 and Federal Reserve expenses for currency printing.

Priced Services

The Monetary Control Act of 1980 requires the Federal Reserve to make available to all depository institutions, for a fee, certain services that the Federal Reserve had previously provided without explicit charge and only to member banks. As the act requires, the fees charged for providing these priced services are based on the cost of providing the services, including all direct and indirect costs, the interest on items credited before actual collection (float), and the private sector adjustment factor (PSAF). The PSAF takes into account the return on capital that would have been provided, and the taxes that would have been paid, had the services been furnished by a private business firm.

Annual Pricing Process

To meet the requirement for the full recovery of costs, the Federal Reserve has developed an annual pricing process involving a review of Reserve Bank expenses in addition to the review required by the budget process. Use of the budgets is an integral part of the pricing exercise because most of the recoverable costs of priced services are direct and indirect costs as determined by the budgets. 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 the respective service, by the Pricing Policy Committee, and ultimately by the Board of Governors.¹ If fees for any service are set so that the full recovery of costs is not anticipated, the Board announces the rationale.

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. Estimates of income taxes and the return on capital are based on tax and financing rates derived from a model of the fifty largest U.S. bank holding companies; these rates are applied to the assets the Federal Reserve expects to use in providing priced services in the coming year. The other components of the PSAF are derived from the budgets of the Reserve Banks and the Board: the imputed sales tax (based on budgeted outlays for materials, supplies, and capital assets); the imputed assessment for insurance by the Federal Deposit Insurance Corporation (FDIC) (based on expected clearing balances and amounts deferred to depository institutions for items de-

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 Board 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.

posited for collection with the Reserve Banks); and the portion of the expenses of the Board of Governors that is directly related to the development of priced services.

The inclusion of all these costs means the Federal Reserve offers its priced services on a basis comparable with that in the private sector, and the discipline of the market ensures that the prices charged will be no higher than necessary.

Calculation of the PSAF for 1994

In 1993 the Board approved a 1994 private sector adjustment factor for Reserve Bank priced services of \$103.6 million, an increase of \$12.2 million, or 13.3 percent, over the PSAF of \$91.4 targeted for 1993.

Asset Base

The value of Federal Reserve assets to be used in providing priced services in

Table A.1

Pro Forma Balance Sheet for Federal Reserve Priced Services, 1993 and 1994¹

Millions of dollars

Item	1993	1994
ASSETS		
<i>Short-term assets</i>		
Imputed reserve requirement on clearing balances	534.8	593.6
Investment in marketable securities	5,465.2	5,342.3
Receivables ²	32.6	64.3
Materials and supplies ²	5.4	5.5
Prepaid expenses ²	9.3	16.1
Items in process of collection	<u>3,826.4</u>	<u>3,198.9</u>
Total short-term assets	9,873.7	9,220.7
<i>Long-term assets</i>		
Premises ^{2,3}	359.0	349.9
Furniture and equipment ²	201.0	183.1
Leasehold improvements and long-term prepayments ²	49.8	32.1
Capital leases	<u>.0</u>	<u>.6</u>
Total long-term assets	<u>609.8</u>	<u>565.6</u>
Total assets	10,483.5	9,786.4
LIABILITIES		
<i>Short-term liabilities</i>		
Clearing balances and balances arising from early credit of uncollected items	6,652.4	5,935.9
Deferred-credit items	3,174.1	3,198.9
Short-term debt ⁴	<u>47.3</u>	<u>85.9</u>
Total short-term liabilities	9,873.7	9,220.7
<i>Long-term liabilities</i>		
Obligations under capital leases0	.0
Long-term debt ⁴	<u>201.8</u>	<u>174.1</u>
Total long-term liabilities	<u>201.8</u>	<u>174.1</u>
Total liabilities	10,075.5	9,394.8
Equity ⁴	<u>408.0</u>	<u>391.5</u>
Total liabilities and equity	10,483.5	9,786.4

1. Data are averages for the year.

2. Financed through the private sector adjustment factor; other assets are self-financing.

3. Includes allocations of Board of Governors' assets

to priced services of \$0.4 million for 1993 and \$0.4 million for 1994.

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

1994 is estimated at \$9,786.4 million (table A.1). The value of assets assumed to be financed through debt and equity in 1994 is \$651.5 million, a decrease of \$5.6 million, or 0.9 percent, from 1993 (table A.2); the decrease is due primarily to lower priced asset base levels at the Reserve Banks.

Cost of Capital, Taxes, and Other Imputed Costs

For 1994, a pretax rate of return on equity of 12.7 percent is planned. Other required PSAF recoveries for 1994—imputed sales taxes, imputed FDIC insurance assessment, and Board expenses—total \$35.0 million (table A.2).

Table A.2

Derivation of the Private Sector Adjustment Factor (PSAF), 1993 and 1994

Millions of dollars, except as noted

Item	1993	1994
PSAF COMPONENTS		
<i>Assets to be financed</i> ¹		
Short-term	47.3	85.9
Long-term ²	609.8	565.6
Total	657.1	651.5
<i>Cost of capital (percent)</i> ³		
Short-term debt	6.2	4.3
Long-term debt	9.0	8.7
Pretax return on equity ⁴	8.6	12.7
Weighted average long-term cost of capital	8.8	11.5
<i>Capital structure (percent)</i>		
Short-term debt	7.2	13.2
Long-term debt	30.7	26.7
Equity	62.1	60.1
Tax rate (percent)	29.5	30.4
REQUIRED PSAF RECOVERIES		
<i>Capital costs</i> ⁵		
Short-term debt	2.9	3.7
Long-term debt	18.2	15.2
Equity	35.3	49.7
Total	56.4	68.6
<i>Other costs</i>		
Sales taxes	11.4	12.5
Assessment for federal deposit insurance	21.3	19.8
Expenses of Board of Governors	2.3	2.7
Total	35.0	35.0
Total PSAF recoveries		
Millions of dollars	91.4	103.6
As a percentage of capital	13.9	15.9
As a percentage of expenses	15.1	17.0

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, 31 percent are assumed to be financed by long-term debt and 69 percent by equity. The data are average rates paid by the 50 largest bank holding companies (determined by size).

4. The pretax rate of return on equity is based on average after-tax rates of return on equity, adjusted by the effective tax rate to yield the pretax rate of return on equity for each bank holding company for each year. These data are then averaged over the five years 1988–92 to yield the pretax return on equity for use in the PSAF.

5. The calculations underlying these data use the dollar value of assets to be financed, divided as described in note 3, and the rates for the cost of capital.

The \$12.2 million increase in PSAF recoveries is attributable to a higher cost of equity planned for 1994.

Capital Outlays

In accordance with generally accepted accounting principles (GAAP), the Federal Reserve System depreciates the cost of fixed assets over their estimated useful lives. In the federal government, where no requirement for depreciation accounting exists, the cost of fixed assets is typically recorded as an expense at the time of purchase. However, the *Policy and Procedures Manual for Guidance of Federal Agencies* of the General Accounting Office, which governs accounting procedures in the federal government, specifies in title 2 the use of depreciation accounting for business types of operations and for activities that recover costs from reimbursements or user charges. Certain activities of the Federal Reserve meet both these criteria. 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 allows a more realistic measurement of operating performance.

The Banks capitalize and depreciate all assets that cost \$1,500 or more; they may 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 to estimate the effect of total operating and capital spending. During the budget year, the Banks must submit proposals for major purchases of assets to the Board for further review and approval. The Board of Governors reviews capital expenditures for the Board.

Special Projects

For 1994 the Board of Governors has approved two special research and development projects intended to provide long-range benefits to both the Federal Reserve and the banking industry as a whole. Because spending on such projects is relatively high and short-term, the Federal Reserve accounts for these expenditures separately from its operating expenses.

Development of Currency Authentication Systems

In 1989, the Federal Reserve initiated a special project for development of an Optical Counterfeit Detection System (OCDS). Later that year the project was renamed Development of Currency Authentication Systems because research efforts included development not only of an OCDS, but also of other authentication alternatives.

OCDS is an effort to improve counterfeit-detection capabilities that will enhance the currency service provided to financial institutions and the public. Other activities include development of both long- and short-term authentication alternatives that are expected to improve the Federal Reserve's ability to detect counterfeit currency. All these efforts should produce counterfeit-detector devices to be placed on the Federal Reserve's high-speed currency-processing equipment.

The 1994 project budget is \$1.3 million. Including 1994 budgeted expenses, expenditures on this special project to date total \$18.1 million.

Automation Consolidation

The Automation Consolidation special project will result in consolidation of the Federal Reserve System's mainframe computer operations at three sites. Dur-

ing 1992, the project focused on developing a project plan and staffing and equipping the data centers. In 1993, emphasis was on conversion of District workloads, specifically on two major milestones: transition of Richmond and Dallas District mainframe applications and migration of the District-unique workloads from Atlanta, St. Louis, and Kansas City; and transition of District EPS (electronic payment system) images to the production environment by year-end. The 1994 budget of \$66.9 million will support these efforts. Including 1994, System expenditures on this special project total \$161.2 million.

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 A.3). Notes are also required for inventories held by the Reserve Banks to meet changes in demand.

The Federal Reserve Act stipulates that the costs of producing currency, as well as the costs of putting it into

Table A.3

Currency in Circulation, New Notes Issued, and Notes Destroyed, 1993 Estimate

Millions of pieces

Dollar denomination	Notes in circulation ¹	New notes issued ²	Notes destroyed ²
1	5,445	3,932	3,453
2	468	22	3
5	1,294	968	883
10	1,250	855	790
20	3,586	2,051	1,850
50	777	239	167
100	1,947	453	181
Total	14,767	8,520	7,327

1. As of September 1993.

2. Based on actual levels through November and expected levels for December. Figures for new notes issued do not include additions to inventory at the Reserve Banks.

circulation and destroying it, be assumed by the Federal Reserve System (table A.4). 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 the costs of transporting and packaging the currency. ■

Table A.4

Costs to the Federal Reserve of New Currency, 1992–94

Millions of dollars, except as noted

Item	1992 actual	1993 estimated	1994 budget	Percentage change, 1993 to 1994
Printing ¹	286.1	346.1	355.3	2.7
Shipping from Washington and western facilities	5.6	7.0	8.3	18.6
Reimbursement to the Treasury for issuance and retirement	2.0	2.3	2.4	4.3
Other ²	1.3	.7	.9	21.0 ³
Total cost of currency	295.0	356.1	366.9	3.0

1. Based on 7.9 billion notes in 1992, 8.4 billion notes in 1993, and 9 billion notes in 1994.

2. Includes intrasystem shipment of fit currency, purchase of currency pallets, and shipment of currency pallets to the Bureau of Engraving and Printing.

3. Percentage calculated from unrounded dollars.

Appendix B

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 several years (see appendix A).

The System derives its income primarily from earnings on U.S. government securities that the Federal Reserve has acquired through open market operations, one of the tools of monetary policy. These earnings account for approximately 89 percent of current income (table B.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 B.2). The Reserve Banks record extraordinary adjustments to current net income in a profit and loss account. The primary entries in the account are for gains or losses on the sale of U.S. government securities and for gains or losses on assets denominated in foreign currencies that result either from the sale of those assets or from their revaluation at market exchange rates.

The Reserve Banks retain a surplus to cushion unexpected losses, much as commercial establishments retain earnings. The Board of Governors requires that the surplus account at year-end be an amount equal to the capital paid in by the member banks. Since the end of 1964, the Board's policy has been to transfer to the U.S. 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 classified as interest on Federal Reserve notes. Such payments were \$16.8 billion for 1992 and are estimated to be \$16.0 billion for 1993.

Table B.1

Income of the Federal Reserve System,
1992 and 1993

Millions of dollars

Source	1992 actual	1993 estimate
Loans	6.1	5.6
U.S. government securities ...	17,336.4	16,890.7
Foreign currencies	2,122.0	1,249.2
Priced services	758.4	756.3
Other	12.2	11.1
Total	20,235.0	18,913.0

Table B.2

Distribution of the Income of the Federal Reserve Banks, 1992 and 1993

Millions of dollars

Item	1992 actual	1993 estimate
Current income ¹	20,235	18,913
LESS		
<i>Current expenses of Reserve Banks²</i>		
Operating expenses	1,297	1,477
Costs of earnings credits	177	182
EQUALS		
Current net income	18,760	17,254
PLUS		
Net additions to, or deductions from (-), current net income ³	-959	-201
LESS		
Cost of unreimbursed Treasury services ⁴	29	28
<i>Assessments by the Board</i>		
Board expenses	129	140
Cost of currency	296	356
<i>Other distributions</i>		
Dividends paid to member banks ⁵	172	195
Transfers to, or from (-), surplus ⁶	402	348
EQUALS		
Payment to U.S. Treasury	16,774	15,985

1. See table B.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions of \$140.9 million in 1992 and \$131.4 million in 1993 in credits for net periodic pension cost.

3. This account is the same as that reported under the same name in the table "Income and Expenses of Federal Reserve Banks" in the Statistical Tables section of the Board's *Annual Report* and includes realized and unrealized gains on assets denominated in foreign currencies, gains on sales of U.S. government securities, and miscellaneous gains and losses.

4. 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.

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

6. 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 C

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 Reserve Bank Operations and Payment Systems, 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 Office of Inspector General (OIG) conducts audits, operations reviews, and investigations of the programs and operations of the Board and those Board functions delegated to the Federal Reserve Banks. The OIG retains an independent auditor each year to certify the fairness of the

Board's financial statements and its compliance with laws and regulations affecting those financial statements.

General Accounting Office

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 16 projects in various stages of completion, since 1979 has completed 116 reports on selected aspects of Federal Reserve operations (tables C.1 and C.2). The GAO has also involved the Federal Reserve in about 76 other reviews not directly related to the System and has terminated 50 others before completion. The reports are available directly from the GAO.

Table C.1

Active GAO Projects Relating to the Federal Reserve

Subject	Date initiated
Debt crisis in less-developed countries	1/25/91
Insider activity at banks	10/24/91
Supervision of international banks	5/15/92
Credit card industry	6/2/92
Interstate banking and branching in three western states	9/3/92
Loan loss reserve methodologies	9/22/92
Financial crises	10/27/92
Country risk assessments	11/24/92
First City Bancorporation of Texas	1/19/93
Bank securities activities	5/12/93
Bank mutual fund activities	6/8/93
CRA and the fair funding laws	6/17/93
Economic statistics improvements	7/27/93
Real estate threshold level loans	8/10/93
Relationship of the operations of the Federal Reserve System to the federal budget	10/8/93
Reducing Treasury auction time processing	11/1/93

Table C.2

Completed GAO Reports Relating to the Federal Reserve System

Report	Number	Date issued
Comparing Policies and Procedures of the Three Bank Regulatory Agencies	GGD-79-27	3/29/79
Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy? ..	EMD-79-45	6/11/79
Federal Systems Not Designed to Collect Data on All Foreign Investments in U.S. Depository Institutions	GGD-79-42	6/19/79
Considerable Increase in Foreign Banking in United States since 1972 ..	GGD-79-75	8/1/79
Investment Policies, Practices and Performance of Federal Retirement Systems	FPCD-79-17	8/31/79
Federal Supervision of Bank Holding Companies Needs Better, More Formalized Supervision	GGD-80-20	2/12/80
The Federal Reserve Should Assure Compliance with the 1970 Bank Holding Company Act Amendments	GGD-80-21	3/12/80
Federal Agencies' Initial Problems with the Right to Financial Privacy Act of 1978	GGD-80-64	5/29/80
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
An Economic Overview of Bank Solvency Regulation	PAD-81-25	2/13/81
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 Reserve Banks	GGD-81-49	5/21/81
Bank Secrecy Act Reporting Requirements Have Not 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
Financial Institution Regulatory Agencies Should Perform Internal Audit Reviews of their Examination and Supervision Activities	GGD-82-5	10/19/81
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
Survey of Investor Protection and the Regulation of Financial Intermediaries	GGD-83-30	7/13/83
Financial Institutions Regulatory Agencies Can Make Better Use of Consumer Complaint Information	GGD-83-13	8/25/83
Expediting Tax Deposits Can Increase the Government's Interest Earnings	GGD-84-14	11/21/83
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

Table C.2
Continued

Report	Number	Date issued
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
Difficulties in Evaluating the Effectiveness of the Community Reinvestment Act	OCE-86-1	11/4/85
International Coordination of Bank Supervision: The Record to Date ...	NSIAD-86-40	2/6/86
Implementation of the Export Trading Company Act of 1982	NSIAD-86-42	2/27/86
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 Are 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
An Examination of Views Expressed about Access to Brokers' Services ..	GGD-88-8	12/18/87
Issues Related to Repeal of the Glass-Steagall Act	GGD-88-37	1/22/88
Preliminary Observations on the October 1987 Crash	GGD-88-38	1/26/88
Supervision of Overseas Lending Is Inadequate	NSIAD-88-87	5/5/88
Competitive Concerns of Foreign Financial Firms in Japan, the United Kingdom and the United States	NSIAD-88-171	6/2/88
Administrative Expenses at FHLBB and FRB for 1985 and 1986	AFMD-88-33	6/15/88
Government in the Sunshine Act Compliance at Selected Agencies	GGD-88-97	7/20/88
Trends in Commercial Bank Performance, December 1976-June 1987 ..	GGD-88-106BR	7/28/88
U.S. Commercial Banks' Securities Activities in London	NSIAD-88-238	9/8/88
Lending to Troubled Sectors	GGD-88-126BR	9/26/88
Government Check-Cashing Issues	GGD-89-12	10/7/88
Conflict of Interest: Abuses in Commercial Banking Institutions	GGD-89-35	1/27/89
Competitive Fairness Is an Elusive Goal	GGD-89-61	5/12/89
Independent Audits Needed to Strengthen Internal Control and Bank Management	AFMD-89-25	5/31/89
Information on the System's Check Collection Service	GGD-90-17	12/15/89
Oversight of Critical Banking Systems Should Be Strengthened	IMTEC-90-14	1/14/90
Activities of Securities of Bank Holding Companies	GGD-90-48	3/14/90
The Stock, Options, and Futures Markets Are Still at Risk	GGD-90-33	4/11/90
Update on U.S. Commercial Banks' Securities in London	NSIAD-90-98	5/7/90
U.S. Financial Services' Competitiveness under the Single Market Program	NSIAD-90-99	5/21/90
Limited Public Demand for New Dollar Coin or Elimination of Pennies ..	GGD-90-88	5/23/90
Oversight of Automation Used to Clear and Settle Trades Is Uneven ...	IMTEC-90-47	7/12/90
The Government's Exposure to Risks	GGD-90-97	8/15/90
Office of Inspector General Operations at Financial Regulatory Agencies ..	AFMD-90-55FS	8/24/90
Additional Reserves and Reform Needed to Strengthen the Fund	AFMD-90-100	9/11/90
More Transaction Information and Investor Protection Measures Are Needed	GGD-90-114	9/14/90
Issues Relating to Banks Selling Insurance	GGD-90-113	9/25/90

Table C.2

Continued

Report	Number	Date issued
Implementation of Risk-Based Capital Adequacy Standards	NSIAD-91-80	1/25/91
Overview of Six Foreign Systems	NSIAD-91-104	2/22/91
Deposit Insurance: A Strategy for Reform	GGD-92-26	3/4/91
Bank Supervision: Prompt and Forceful Regulatory Actions Needed	GGD-91-69	4/15/91
Many Federal Agencies Collect and Disseminate Information	NSIAD-91-173	5/1/91
Money Laundering: The U.S. Government Is Responding to the Problem ..	NSIAD-91-130	5/16/91
A Framework for Limiting the Government's Exposure to Risks	GGD-91-90	5/22/91
Treasury Tax and Loan Activity at Two Troubled Banks	AFMD-91-87	9/12/91
OCC's Supervision of the Bank of New England Was Not Timely or Forceful	GGD-91-128	9/16/91
Bank Holding Company Securities Subsidiaries' Market Activities Update	GGD-91-131	9/20/91
Time Limits on Holding Deposits Generally Met but More Oversight Needed	GGD-91-132	9/30/91
Legislation Needed to Strengthen Bank Oversight	AFMD-92-19	10/21/91
Contracting Practices with Data Processing Servicers	GGD-92-19	2/5/92
Challenges to Harmonizing International Capital Standards Remain	GGD-92-41	3/10/92
Assessing the Need to Regulate Additional Financial Activities	GGD-92-70	4/21/92
Call Report Automation	IMTEC-92-60R	5/28/92
Flexible Accounting Rules Lead to Inflated Financial Reports	AFMD-92-52	6/11/92
Cross-Border Information Sharing Is Improving, but Obstacles Remain ..	GGD-92-110	7/28/92
Changes in Collateral Practices Could Reduce the Federal Government's Risk of Loss	AFMD-92-54	9/14/92
Initial Assessment of Certain BCCI Activities in the U.S.	GGD-92-96	9/30/92
Appraisal Reform: Implementation Status and Unresolved Issues	GGD-93-19	10/30/92
Bank and Thrift Criminal Fraud: The Federal Commitment Could Be Broadened	GGD-93-48	1/8/93
FRB Examinations and Inspections Do Not Fully Assess Bank Safety and Soundness	AFMD-93-13	2/16/93
Improvements Needed in Examination Quality and Regulatory Structure ..	AFMD-93-15	2/16/93
Personnel Engaged in Public and Congressional Affairs in Federal Agencies	GGD-93-71FS	3/8/93
Credit Availability Guidance	GGD-93-15R	3/30/93
Treasury Automation: Automated Auction May Not Achieve Benefits or Operate Properly	IMTEC-93-28	4/27/93
IRS Can Improve the Federal Tax Deposit System	AFMD-93-40	4/28/93
Funding Foreign Bank Examinations	GGD-93-35R	5/4/93
Preliminary Information Related to a Futures Transaction Fee	GGD-93-108	5/17/93
The Business Environment in the United States, Japan, and Germany ..	GGD-93-124	8/9/93
Regulatory Impediments to Small Business Lending Should Be Removed	GGD-93-121	9/7/93
Recent Developments in Foreign Exchange Markets	GGD-93-154	9/24/93
Benefits and Risks of Removing Regulatory Restrictions	GGD-94-26	11/2/93
Regulatory Burden: Recent Studies, Industry Issues, and Agency Initiatives	GGD-94-28	12/13/93

Office of Inspector General

The Board's Office of Inspector General functions in accordance with the Inspector General Act of 1978, as amended. The OIG provides policy direction for audits, operations reviews, and investigations of the programs and operations of the Board and its delegated functions at

the Federal Reserve Banks, and plans and conducts them. The OIG also reviews existing and proposed legislation and regulations for economy and efficiency. It recommends policies and supervises and conducts activities that promote economy and efficiency and that prevent and detect waste, fraud, and abuse in Board and Board-delegated

programs and operations. In addition, it coordinates its efforts with other governmental and nongovernmental agencies to promote economy and efficiency and to detect and prevent fraud and abuse in activities administered or financed by the Board. The OIG keeps the Congress and the Chairman of the Board fully informed about serious abuses and defi-

ciencies and about the status of any corrective actions.

During 1993, the OIG reported on ten audits and three operations reviews (table C.3). In addition, the OIG closed eight investigations and conducted a number of legislative and regulatory reviews.

Table C.3

Completed OIG Reports Relating to the Federal Reserve System, 1993

Report	Number	Month of issue
Audit of Potential Supervision and Regulation Conflicts of Interest	A9105	1/93
Operations Review of the Division of Consumer and Community Affairs ...	R9201	2/93
Audit of the Board's Financial Statements (year ending 12/31/92)	A9301	2/93
Audit of the FFIEC's Financial Statements (year ending 12/31/92)	A9302	2/93
Assistance to Financial Statements Audit—FR Employee Benefits System (year ending 12/31/92)	A9300	3/93
Operations Review of the Legal Division	R9202	4/93
Audit of the Board's Database Management Systems	A9208	5/93
Audit of HMDA Contract for Report Printing	A9203	7/93
Audit of the Board's Workers' Compensation Program	A9204	8/93
Operations Review of the Office of Board Members	R9203	9/93
Audit of the Board's Financial Examination Program	A9107	9/93
Audit of the Board's Mechanical Inventory Controls	A9209	11/93
Report on the Failure of Jefferson Bank & Trust	A9307	12/93

Appendix D

Expenses and Employment at the Federal Reserve Banks

Table D.1

Operating Expenses of the Federal Reserve Banks, by District, 1993 and 1994¹

Thousands of dollars, except as noted

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	97,165	101,724	4,559	4.7
New York	354,784	372,192	17,408	4.9
Philadelphia	98,386	101,926	3,539	3.6
Cleveland	98,304	105,090	6,786	6.9
Richmond	132,215	141,035	8,820	6.7
Atlanta	167,433	177,655	10,222	6.1
Chicago	193,572	203,331	9,759	5.0
St. Louis	80,638	84,036	3,398	4.2
Minneapolis	82,075	87,786	5,711	7.0
Kansas City	111,155	118,431	7,276	6.5
Dallas	112,686	116,699	4,013	3.6
San Francisco	190,942	198,320	7,378	3.9
Total, all Districts	1,719,355	1,808,224	88,869	5.2
<i>Special projects</i>				
Check Image Processing	3,054	0	-3,054	...
Currency Authentication Systems	6,276	1,328	-4,948	...
Automation Consolidation	73,972	66,941	-7,031	...
Total	83,302	68,269	-15,033	...
Total	1,802,657	1,876,493	73,836	4.1

1. Excludes capital outlays.

Table D.2

Employment at the Federal Reserve Banks, by District, 1993 and 1994

Average number of personnel, except as noted¹

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	1,415	1,370	-45	-3.2
New York	4,360	4,306	-54	-1.2
Philadelphia	1,470	1,404	-66	-4.5
Cleveland	1,412	1,440	27	1.9
Richmond	2,132	2,110	-22	-1.0
Atlanta	2,502	2,460	-42	-1.7
Chicago	2,640	2,615	-25	-1.0
St. Louis	1,212	1,187	-25	-2.1
Minneapolis	1,218	1,279	61	5.0
Kansas City	1,671	1,640	-31	-1.9
Dallas	1,644	1,583	-61	-3.7
San Francisco	2,533	2,529	-4	-.2
Total, all Districts	24,210	23,922	-288	-1.2
<i>Special projects</i>				
Check Image Processing	2	0	-2	...
Currency Authentication Systems	0	0	0	...
Automation Consolidation ²	371	441	70	...
Total	373	441	68	...
Total	24,583	24,363	-220	-.9

1. See chapter 3, note 2, for definition of average number of personnel (ANP).

2. For presentation purposes, FRAS staff are included with the Automation Consolidation special project.

Table D.3

Expenses of the Federal Reserve Banks, by Operational Area, 1993 and 1994

Thousands of dollars, except as noted

Operational area	1993 estimate	1994 budget	Change	
			Amount	Percent
Monetary and economic policy	116,167	123,865	7,698	6.6
Services to the U.S. Treasury and other government agencies	198,106	218,042	19,936	10.1
Services to financial institutions and the public	1,076,363	1,109,494	33,131	3.1
Supervision and regulation	328,719	356,823	28,104	8.5
Total	1,719,355	1,808,224	88,869	5.2
<i>MEMO¹</i>				
Support	552,772	602,967	50,195	9.1
Overhead	494,254	514,700	20,446	4.1

1. The costs of support and overhead are included in the expenses by operational area shown above. Support refers to activities, such as data processing, whose costs can be charged to users according to the amount of use.

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

Table D.4

Expenses of the Federal Reserve Banks
for Monetary and Economic Policy, by District, 1993 and 1994

Thousands of dollars, except as noted

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	6,452	7,290	838	13.0
New York ¹	43,254	46,563	3,309	7.6
Philadelphia	4,863	5,349	484	10.0
Cleveland	5,232	5,690	457	8.7
Richmond	5,455	5,707	252	4.6
Atlanta	7,283	8,265	982	13.5
Chicago	7,697	7,487	-210	-2.7
St. Louis	6,465	6,789	324	5.0
Minneapolis	6,346	6,200	-146	-2.3
Kansas City	5,967	6,343	376	6.3
Dallas	7,719	7,930	211	2.7
San Francisco	9,432	10,254	821	8.7
Total	116,167	123,865	7,698	6.6

1. Expenses of open market trading operations, located in the New York District, are estimated to have been \$21.4 million in 1993 and are budgeted at \$24.6 million for 1994.

Table D.5

Expenses of the Federal Reserve Banks for Services
to the U.S. Treasury and Other Government Agencies, by District, 1993 and 1994

Thousands of dollars, except as noted

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	9,393	10,117	723	7.7
New York	42,456	45,657	3,200	7.5
Philadelphia	20,465	20,244	-220	-1.1
Cleveland	16,600	18,647	2,047	12.3
Richmond	13,229	16,958	3,729	28.2
Atlanta	15,459	16,919	1,460	9.4
Chicago	20,514	22,718	2,204	10.7
St. Louis	10,262	10,767	505	4.9
Minneapolis	9,967	14,622	4,655	46.7
Kansas City	13,841	16,741	2,901	21.0
Dallas	10,380	9,588	-792	-7.6
San Francisco	15,539	15,065	-474	-3.1
Total	198,106	218,042	19,936	10.1

Table D.6

Expenses of the Federal Reserve Banks
for Services to Financial Institutions and the Public, by District, 1993 and 1994

Thousands of dollars, except as noted

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	66,656	67,997	1,338	2.0
New York	179,219	185,061	5,841	3.3
Philadelphia	55,593	57,173	1,581	2.8
Cleveland	62,980	66,050	3,070	4.9
Richmond	95,548	98,691	3,143	3.3
Atlanta	119,126	123,745	4,619	3.9
Chicago	122,908	128,495	5,587	4.5
St. Louis	50,741	51,456	715	1.4
Minneapolis	51,271	51,992	721	1.4
Kansas City	68,150	70,289	2,139	3.1
Dallas	72,345	74,740	2,395	3.3
San Francisco	131,828	133,807	1,979	1.5
Total	1,076,363	1,109,494	33,131	3.1

Table D.7

Expenses of the Federal Reserve Banks
for Supervision and Regulation, by District, 1993 and 1994

Thousands of dollars, except as noted

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	14,663	16,320	1,657	11.3
New York	89,854	94,912	5,058	5.6
Philadelphia	17,466	19,161	1,695	9.7
Cleveland	13,492	14,703	1,211	9.0
Richmond	17,983	19,679	1,696	9.4
Atlanta	25,564	28,726	3,162	12.4
Chicago	42,453	44,630	2,177	5.1
St. Louis	13,169	15,024	1,855	14.1
Minneapolis	14,491	14,972	481	3.3
Kansas City	23,198	25,058	1,860	8.0
Dallas	22,242	24,441	2,199	9.9
San Francisco	34,143	39,195	5,052	14.8
Total	328,719	356,823	28,104	8.5

Table D.8

Expenses of the Federal Reserve Banks
for Salaries of Officers and Employees, by District, 1993 and 1994

Thousands of dollars, except as noted

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	54,035	53,905	-130	-2
New York	184,084	188,819	4,736	2.6
Philadelphia	49,372	48,747	-625	-1.3
Cleveland	45,383	47,816	2,433	5.4
Richmond	67,886	69,503	1,617	2.4
Atlanta	80,220	81,636	1,416	1.8
Chicago	94,984	98,758	3,774	4.0
St. Louis	38,320	38,735	414	1.1
Minneapolis	41,492	44,265	2,773	6.7
Kansas City	56,713	55,904	-809	-1.4
Dallas	54,922	54,906	-16	*
San Francisco	100,903	103,698	2,795	2.8
Total	868,314	886,692	18,378	2.1

* Less than 0.05 percent.

Table D.9

Factors in the 1993-to-1994 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 ¹	Overtime	Other	Total change
Boston	2.0	.1	1.2	-3.1	.0	-.3	-.1	-.2
New York	3.4	.0	1.2	-.2	-.9	-.6	-.4	2.6
Philadelphia	2.4	.0	.3	-2.7	-.6	-.7	.0	-1.3
Cleveland	3.3	*	.8	2.2	-.9	-.1	.1	5.4
Richmond	2.4	.1	1.7	.6	-1.2	-1.2	.1	2.4
Atlanta	2.5	.1	.9	-1.3	.2	-.7	.0	1.8
Chicago	3.3	.0	1.3	-.2	-.4	-.1	.1	4.0
St. Louis	2.4	.1	.5	-.9	-.6	-.4	*	1.1
Minneapolis	2.4	.0	.5	4.6	.0	-.5	-.4	6.7
Kansas City	2.3	.1	1.3	-1.1	-1.0	-.2	-2.8	-1.4
Dallas	2.9	.1	.3	-2.3	-1.1	.0	.1	*
San Francisco	2.5	.1	.7	-.3	.1	-.4	.0	2.8
Total	2.8	.1	1.0	-.4	-.5	-.4	-.3	2.1

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.

* Less than 0.05 percent.

Table D.10

Capital Outlays of the Federal Reserve Banks, by District, 1993 and 1994

Thousands of dollars, except as noted

District	1993 estimate	1994 budget	Change	
			Amount	Percent
Boston	11,166	17,007	5,841	52.3
New York	48,829	44,756	-4,074	-8.3
Philadelphia	13,909	16,206	2,297	16.5
Cleveland	16,344	33,788	17,444	106.7
Richmond	22,930	16,297	-6,634	-28.9
Atlanta	20,985	28,932	7,947	37.9
Chicago	33,891	37,560	3,669	10.8
St. Louis	9,028	5,381	-3,647	-40.4
Minneapolis	8,177	26,759	18,583	227.3
Kansas City	6,000	9,933	3,933	65.6
Dallas	13,777	10,142	-3,635	-26.4
San Francisco	24,575	24,353	-223	-.9
Total, all Districts	229,610	271,113	41,503	18.1
FRAS	88,574	84,145	-4,429	-5.0
Total, System	318,184	355,258	37,074	11.7

Table D.11

Budget Performance of the Federal Reserve Banks,
Operating Expenses, by District, 1993¹

Thousands of dollars, except as noted

District	1993 budget	1993 estimate	Change	
			Amount	Percent
Boston	97,165	97,165	0	.0
New York	357,616	354,784	-2,832	-.8
Philadelphia	98,483	98,386	-97	*
Cleveland	96,901	98,304	1,403	1.4
Richmond	131,409	132,215	806	.6
Atlanta	167,114	167,433	319	.2
Chicago	193,990	193,572	-418	-.2
St. Louis	78,235	80,638	2,403	3.1
Minneapolis	81,009	82,075	1,066	1.3
Kansas City	110,117	111,155	1,038	.9
Dallas	118,323	112,686	-5,637	-4.8
San Francisco	192,139	190,942	-1,197	-.6
Total, all Districts	1,722,500	1,719,355	-3,145	-.2
<i>Special projects</i>				
Check Image Processing	3,052	3,054	2	...
Currency Authentication Systems	4,238	6,276	2,038	...
Automation Consolidation	73,005	73,972	967	...
Total	80,295	83,302	3,007	...
Total	1,802,795	1,802,657	-138	*

1. Excludes capital outlays.

*Less than 0.05 percent.

Table D.12

Budget Performance of the Federal Reserve Banks,
Employment, by District, 1993Average number of personnel, except as noted ¹

District	1993 budget	1993 estimate	Change	
			Amount	Percent
Boston	1,448	1,415	-33	-2.3
New York	4,364	4,360	-4	*
Philadelphia	1,470	1,470	0	.0
Cleveland	1,399	1,412	14	1.0
Richmond	2,132	2,132	0	.0
Atlanta	2,481	2,502	21	.8
Chicago	2,683	2,640	-43	-1.6
St. Louis	1,205	1,212	7	.6
Minneapolis	1,213	1,218	5	.4
Kansas City	1,662	1,671	10	.6
Dallas	1,686	1,644	-42	-2.5
San Francisco	2,544	2,533	-11	-.4
Total, all Districts	24,286	24,210	-76	-.3
<i>Special projects</i>				
Check Image Processing	2	2	0	...
Currency Authentication Systems	0	0	0	...
Automation Consolidation ²	298	371	72	...
Total	300	373	72	...
Total	24,586	24,583	-4	*

1. See chapter 3, note 2, for definition of average number of personnel (ANP).

2. For presentation purposes, FRAS staff are included with the Automation Consolidation special project.

*Less than 0.05 percent.

Table D.13

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1989-94 ¹

Thousands of dollars, except as noted

Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Total
1989	93,553	145,547	916,310	195,076	1,350,487
1990	98,973	156,934	938,862	211,884	1,406,652
1991	106,699	169,483	980,379	237,369	1,493,930
1992	109,954	182,307	1,020,974	276,038	1,589,273
1993 estimate	116,167	198,106	1,076,363	328,719	1,719,355
1994 budget	123,865	218,042	1,109,494	356,823	1,808,224
MEMO					
Average annual change (percent)	5.8	8.4	3.9	12.8	6.0

1. Excludes special projects.

Table D.14

Employment at the Federal Reserve Banks, by Operational Area, 1989-94

Average number of personnel, except as noted ¹

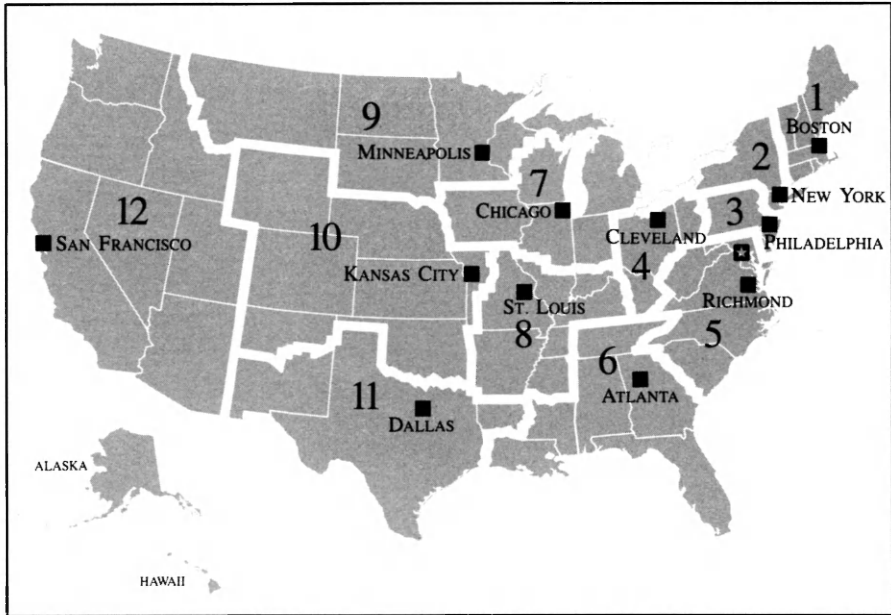
Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Support ²	Overhead ²	Total
1989	783	1,771	9,423	2,198	4,552	4,947	23,674
1990	773	1,817	9,215	2,217	4,533	4,941	23,496
1991	784	1,870	9,044	2,343	4,629	4,924	23,594
1992	776	1,832	8,878	2,587	4,711	4,998	23,782
1993 estimate	762	1,849	8,612	2,945	4,814	5,227	24,210
1994 budget	756	1,860	8,348	3,042	4,679	5,237	23,922
MEMO							
Average annual change (percent)	- .7	1.0	-2.4	6.8	.6	1.2	.2

1. Excludes special projects. See chapter 3, note 2, for definition of average number of personnel (ANP).

2. See table D.3, note 1, for definition.

*Maps of the
Federal Reserve System*

The Federal Reserve System



LEGEND

Both pages

- Federal Reserve Bank city
- ★ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

- Federal Reserve Branch city
- Branch boundary

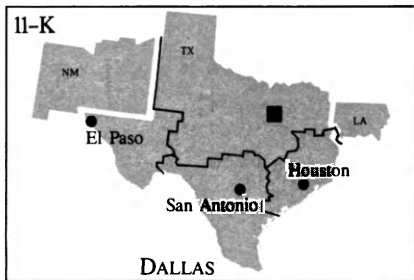
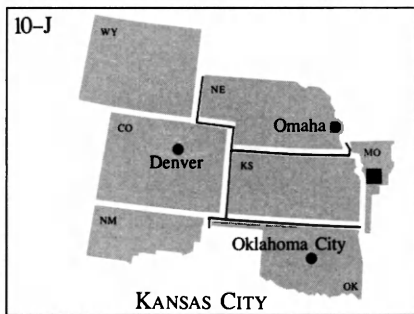
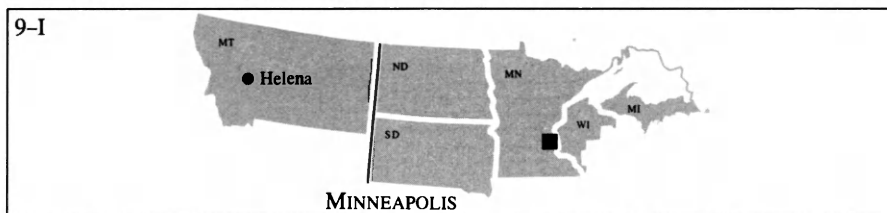
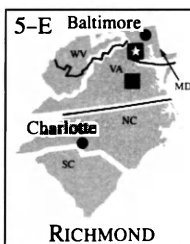
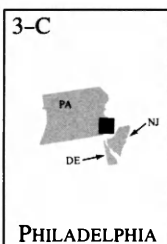
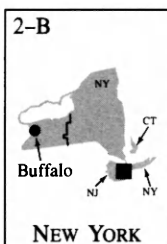
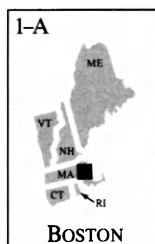
NOTE

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: The New York

Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The maps show the boundaries within the System as of February 1994.



FRB1/1-2000-0394-C