

Annual Report: Budget Review



Board of Governors of the Federal Reserve System

1994–95

February 1995

**This publication is available from Publications Services, Board of Governors
of the Federal Reserve System, Washington, DC 20551**

Contents

Introduction

- 1 FEDERAL RESERVE BUDGET PROCESS
AND OPERATIONAL AREAS

Part I The 1995 Budgets

Chapter 1

- 9 FEDERAL RESERVE SYSTEM
- 9 Net Expenses
- 11 Trends in Expenses and Employment
- 12 Operational Areas
- 12 1995 Budget Initiatives

Chapter 2

- 13 BOARD OF GOVERNORS
- 13 Overview of the Budget
- 14 Highlights of the Budget
- 15 Operations Budget by Division and Object of Expense
- 18 Operations Budget by Operational Area
- 20 Capital Budget
- 20 Trends in Expenses and Employment
- 22 Extraordinary Items

Chapter 3

- 23 FEDERAL RESERVE BANKS
- 23 Major Initiatives
- 25 1995 Budget Objective
- 27 Budget by Operational Area
- 30 Budget by Object of Expense
- 32 Capital Outlays
- 34 Trends in Expenses and Employment
- 34 Volume and Unit Costs
- 35 1994 Budget Performance

Part II Special Analysis

Chapter 4

- 39 SUPERVISION OF FOREIGN BANK OPERATIONS
IN THE UNITED STATES
- 39 Extent of U.S. Operations
- 40 Growth of the Federal Reserve's Responsibilities
- 40 Coordination among State and Federal Agencies

Appendixes

Appendix A

- 45 SPECIAL CATEGORIES OF SYSTEM EXPENSE
- 45 Priced Services
- 48 Capital Outlays
- 48 Special Projects
- 49 Currency Printing

Appendix B

- 51 SOURCES AND USES OF FUNDS

Appendix C

- 53 FEDERAL RESERVE SYSTEM AUDITS
- 53 General Accounting Office
- 57 Office of Inspector General

Appendix D

- 59 EXPENSES AND EMPLOYMENT
AT THE FEDERAL RESERVE BANKS
- 66 MAPS OF THE FEDERAL RESERVE SYSTEM

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 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 1994, the Federal Reserve System spent an estimated \$1.7 billion and earned an estimated \$733 million in revenue from priced services, reimbursements, and other income, for a total of \$920 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 \$19.1 billion in 1994. Earnings in excess of expenses, dividends, and surplus—in 1994, an estimated \$20.4 billion—are 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 1995 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 1994 the Board and the Reserve Banks conducted approximately 693 state member bank examinations and approximately 1,984 bank holding company inspections and acted on a total of 3,574 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 1994 the System conducted approximately 632 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 1994 the Reserve Banks distributed \$348.6 billion in currency and \$4.5 billion in coin and destroyed \$76.6 billion in unfit currency.

The Reserve Banks (along with their Branches and regional centers) also process checks for collection—approximately 15 billion checks in 1994 with a total value of more than \$11 trillion.

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 8,000 depository institutions use Fedwire through direct computer connections with Reserve Banks, and another 2,500 institutions use Fedwire through off-line means such as telephone. In 1994, approximately 74 million transfers valued at about \$211 trillion were sent over Fedwire, an average of \$2.9 million per transfer and \$841 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 clearinghouse associations, automated clearinghouse (ACH) networks, credit card processors, automated teller machine networks, and national and

regional funds transfer and securities transfer networks. In 1994, approximately 900,000 net settlement entries for participants in small-dollar clearing arrangements were processed by the Reserve Banks.

Approximately 25,100 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. As of July 1994, all of the approximately 6,700 ACH endpoints had electronic connections with the Federal Reserve. In 1994 the Reserve Banks processed approximately 2.38 billion ACH transactions valued at about \$8.37 trillion; approximately 24 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 1994 the Reserve Banks processed approximately 13.5 million securities transfers valued at \$152 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 about 1.1 million transactions in 1993 and about 1.8 million transactions in 1994.

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 Reserve 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 1995 Budgets

Chapter 1

Federal Reserve System

For 1995, the Federal Reserve System has budgeted net operating expenses of \$1,069.8 million. Revenue from priced services provided to depository institutions is expected to total \$740.3 million, or 36.5 percent of total budgeted operating expenses. Total operating expenses are budgeted at \$2,028.7 million, an increase of 3.9 percent over estimated 1994 expenses. Of this total, \$1,869.3 million is for the Reserve Banks and \$159.4 million is for the Board of Governors (table 1.1).

Not included in the budget for operations are expenses for Reserve Bank special projects, budgeted at \$39.1 million for 1995, down from \$62.2 million estimated for 1994.¹ Also excluded is the cost of currency, budgeted at \$371.1 million for 1995, an increase of 0.6 percent over the estimated 1994 cost of \$368.9 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 Federal Reserve Automation Services, FRAS) is budgeted at 25,563 for 1995, a decrease of 474 from the esti-

mated 1994 level. (Details are given in chapters 2 and 3).

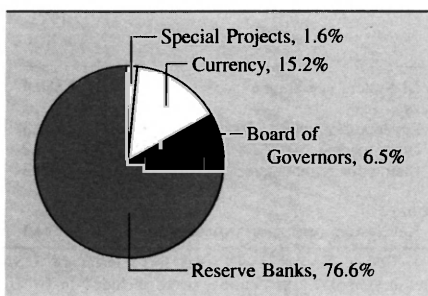
Net Expenses

The System expects to recover 47.3 percent of the expenses it incurs during 1995. In addition to revenue from priced services, the budget includes other income from services provided on behalf of the U.S. Treasury that are paid for by depository institutions using the services, and also claims for reimbursement by the U.S. Treasury and other government agencies for fiscal agency services. After these items are deducted from budgeted 1995 operating expenses, the net expenses of the System show an increase of 8.9 percent over estimated 1994 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

Chart 1.1

Distribution of Expenses of the Federal Reserve System, 1995¹



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 operating 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 1995 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.

1. See text notes 1 and 2.

would have been paid, had a commercial entity in the private sector furnished the services. Projected revenue from priced 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 U.S. Treasury. Claims for reimbursement represent the

Table 1.1

Expenses of the Federal Reserve System for Operations, Special Projects, and Currency, 1993–95¹

Millions of dollars, except as noted

Entity and type of expense	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
<i>Operating expenses</i> ²					
Reserve Banks ³	1,711.5	1,805.2	1,869.3	5.5	3.6
Personnel	1,144.5	1,168.6	1,183.8	1.8	1.3
Nonpersonnel	567.0	636.6	685.5	13.1	7.7
Board of Governors ⁴	139.4	146.9	159.4	5.4	8.5
Personnel	104.7	108.7	116.7	3.8	7.4
Nonpersonnel	34.7	38.2	42.7	10.1	11.8
Total System operating expenses	1,850.9	1,952.1	2,028.7	5.5	3.9
Personnel	1,253.2	1,277.3	1,300.5	1.9	1.8
Nonpersonnel	597.7	674.8	728.2	12.9	7.9
Special projects ⁵	84.3	62.2	39.1	...	...
Currency ⁶	356.6	368.9	371.1	3.4	.6

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, 1993–95

Millions of dollars, except as noted

Item	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Total System operating expenses	1,850.9	1,952.1	2,028.7	5.5	3.9
LESS					
Revenue from priced services	762.3	762.4	740.3	.0	-2.9
Other income ¹	5.2	5.6	5.8	7.7	3.6
Claims for reimbursement ²	189.3	202.0	212.8	6.7	5.3
EQUALS					
Net System operating expenses	894.1	982.1	1,069.8	9.8	8.9

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.

Table 1.3

Revenue from Priced Services, 1993–95

Millions of dollars

Service	1993 actual	1994 estimate	1995 budget
Funds transfers and net settlement	88.8	92.3	90.2
Automated clearinghouse services	59.1	65.3	70.9
Commercial checks	587.5	578.9	554.4
Book-entry securities transfers	14.2	15.5	15.7
Definitive securities safekeeping ¹	1.5	...	...
Noncash collection	4.9	4.1	3.8
Special cash services	6.3	6.3	5.3
Total	762.3	762.4	740.3

1. This service has been discontinued.

expenses incurred by Reserve Banks in providing fiscal agency services to the U.S. 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 1985 to budgeted 1995, the operating expenses of the Federal

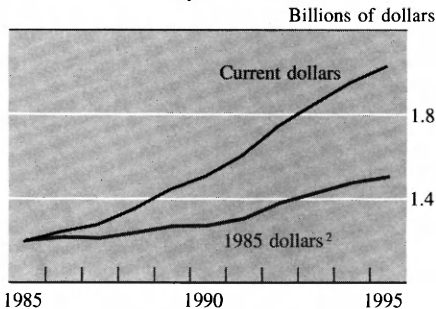
Reserve System increased an average of 5.9 percent a year in current dollars and 2.8 percent a year when adjusted for inflation (chart 1.2). Over the same ten-year period, System employment, including staff working on special projects and FRAS, increased by 961 (chart 1.3).

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 partially to 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

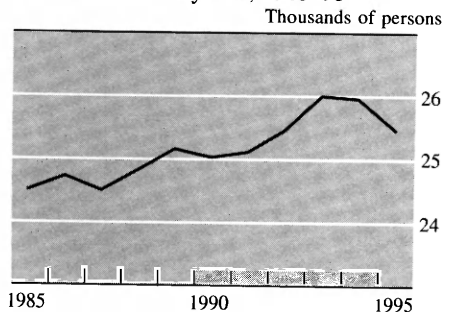
Operating Expenses of the
Federal Reserve System, 1985–95¹



1. For 1994, estimate; for 1995, budget.
2. Calculated with the GDP price deflator

Chart 1.3

Employment in the
Federal Reserve System, 1985–95¹



1. For 1994, estimate; for 1995, budget. Includes FRAS staff.

ing through projected 1995, spending on bank supervision expanded, reflecting an increase in the number and complexity of examinations, greater attention to problem institutions, and the increase in responsibilities resulting from the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and 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.

1995 Budget Initiatives

Several major initiatives that have an impact on Federal Reserve budgets will continue or begin in 1995:

- Expansion of supervision and regulation efforts due to the heightened emphasis on fair lending laws and the international supervisory program
- 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 due to staff reductions resulting from the consolidation of savings bonds operations and from early retirement programs in several Districts. ■

Table 1.4

Operating Expenses of the Federal Reserve System, by Operational Area, 1993–95¹

Millions of dollars, except as noted

Operational area and entity	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Monetary and economic policy	189.3	201.7	219.4	6.6	8.8
Reserve Banks	114.6	124.4	135.1	8.6	8.6
Board of Governors	74.7	77.3	84.3	3.5	9.1
Services to the U.S. Treasury and other government agencies ²	193.6	212.3	221.1	9.7	4.1
Services to financial institutions and the public	1,080.2	1,112.2	1,122.3	3.0	.9
Reserve Banks	1,076.9	1,108.6	1,118.6	2.9	.9
Board of Governors	3.3	3.6	3.7	9.1	2.8
Supervision and regulation	387.7	425.9	465.9	9.9	9.4
Reserve Banks	326.3	359.9	394.5	10.3	9.6
Board of Governors	61.4	66.0	71.4	7.5	8.2
Total	1,850.8	1,952.1	2,028.7	5.5	3.9
Reserve Banks	1,711.4	1,805.2	1,869.3	5.5	3.6
Board of Governors ³	139.4	146.9	159.4	5.4	8.5

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 approved 1995 budget of the Board of Governors provides \$153.1 million for operations, \$3.2 million for extraordinary items (projects of a unique nature), and \$3.1 million for the Office of Inspector General. The Board has authorized 1,713 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 of 1,745 positions is a net increase of sixteen over the number authorized at the end of 1994. By the end of 1995, thirty-three positions in the operational areas and one in the Office of Inspector General will be eliminated in support of the President's program to reduce staffing.

Overview of the Budget

Board Operations

The operations budget of \$153.1 million, which covers the Board's four operational areas (described in the Introduction), is 6.9 percent larger than estimated 1994 expenses. Increased expenses to maintain operations at the 1994 level—expenses such as salary increases, rate increases for fringe benefits, the full-year cost of rental space added in 1994, and higher costs for goods and services—account for 4.7 percentage points of the increase. Initiatives to increase staffing in the Division of Consumer and Community Affairs, to update and enhance main-frame facilities and office automation, and to improve facilities, together with other general projects, account for an increase of 2.6 percentage points, for a total increase of 7.3 percent. The imposi-

tion of a \$507,000 savings target, which by historical standards is considered attainable, reduces the increase over estimated 1994 expenses to 6.9 percent.

In support of the federal program to reduce the number of positions, each Board division was asked to identify the effects of a 2 percent cut in staffing for current activities by the end of 1995. The impact of such a reduction was then reviewed during the division's planning meeting with its oversight committee. Some divisions will reduce staff on the basis of productivity improvements resulting from investments in automation, and others will reduce programs; some divisions may not reduce staff at all. Current projections indicate that, all else being stable, thirty-three positions will be eliminated. However, new work requires the addition of sixteen positions, more than half as a result of pressure in the consumer affairs area. Few of these new positions are necessitated by legislation passed in 1994; additional requirements may arise as that legislation is analyzed and new Community Reinvestment Act regulations are agreed upon. Because the divisions had ample time to plan, most of the positions to be eliminated are already vacant; consequently, the staff reduction program did not significantly affect 1995 expenses or office space requirements.

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 1995, \$3.2 million has been budgeted for extraordinary items. Details follow in a later section.

Office of Inspector General

The 1995 budget for the Office of Inspector General of \$3.1 million is 6.1 percent greater than estimated 1994 expenses. The full-year cost for positions that were vacant in 1994 and salary increases are the main factors in the overall increase.

Highlights of the Budget

Consumer and Community Affairs

The Board’s 1995 budget includes nine new positions in the Division of Consumer and Community Affairs. The volume and complexity of the division’s activities have grown substantially, and the additional staff is necessary to respond, in a timely and accurate manner, to requests from the public for help in understanding compliance regulations and policies; to train the growing number of compliance examiners and community affairs specialists in the Reserve Banks; to develop new policies related to the Community Reinvestment Act; to review bank examinations for consistency; and to work with interagency groups on fair lending issues. The nine new positions are not tied to the recent legislation affecting this function.

Facilities and Equipment

The 1995 budget includes funds for leasing additional space to accommodate near-term growth in employment, to reduce crowding resulting from earlier staff increases, and to provide space for conference rooms and other

necessary support activities. Funding is also provided to ensure proper maintenance of facilities and compliance with the requirements of the Clean Air Act and the Americans with Disabilities Act.

Records Management

A major study is under way to develop improved procedures for identifying, storing, and retrieving Board records. The study is to ensure that the Board is complying with recent legal decisions affecting electronic records and that changes resulting from technology improvements in word processing, including reduced secretarial participation in creating documents, do not adversely affect the quality of Board recordkeeping and document management. Implementation of the necessary legal and procedural changes, including storage of electronic messages, may have an impact on automation resources.

Potential Requirements Not Funded in the 1995 Budget

A number of important issues that have potential significant funding implications are not included in the budget because staff members have not yet determined the full impact of the legislation, developed an action plan, or estimated the costs of the requisite resources. All are tied to the supervision and regulation function.

- The recent passage of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994 will require review and revision of regulations and guidelines concerning interstate banking, interstate branching, branching by foreign banks, branch closures, and management of shell branches. The impact on resources is being reviewed.

▪ The Riegle Community Development and Regulatory Improvement Act of 1994 will result in changes in the regulatory appeals process (including the creation of an independent intra-agency appellate process, an ombudsman, and an alternative dispute resolution program); changes in procedures for forming bank holding companies and for engaging in nonbanking activities; and added discretion in establishing safety and soundness standards. These and other requirements in the legislation will undoubtedly have an impact on resources.

▪ Still pending are proposed regulatory changes in the Community Reinvestment Act (CRA) aimed at providing guidance to financial institutions on the nature and extent of their CRA obligation and at clarifying the methods by which compliance will be evaluated and enforced. The potential impact is not known.

Operations Budget by Division and Object of Expense

The overall operations budget, detailed by Board division, is shown in table 2.1,

Table 2.1

Expenses of the Board of Governors, by Division, Office, or Special Account, 1993–95

Dollars, except as noted

Division, office, or special account	1993 actual	1994 estimate	1995 budget	Change, 1993 to 1994		Change, 1994 to 1995	
				Amount	Percent	Amount	Percent
Board Members	3,866,102	3,916,940	4,369,765	50,838	1.3	452,825	11.6
Secretary	3,720,127	3,837,344	4,084,054	117,217	3.2	246,710	6.4
Legal	6,868,869	7,254,741	7,688,060	385,872	5.6	433,319	6.0
Research and Statistics ..	23,135,368	23,993,695	24,832,359	858,327	3.7	838,664	3.5
International Finance	8,418,805	8,943,573	9,500,920	524,768	6.2	557,347	6.2
Banking Supervision and Regulation	19,208,880	24,645,353	25,280,549	5,436,473	28.3	635,196	2.6
Human Resources Management	4,453,357	4,850,264	5,229,762	396,907	8.9	379,498	7.8
Support Services	23,867,183	25,594,146	27,366,402	1,726,963	7.2	1,772,256	6.9
Controller	2,138,963	2,286,880	2,763,497	147,917	6.9	476,617	20.8
Consumer and Community Affairs	4,390,440	4,806,254	5,590,872	415,814	9.5	784,618	16.3
Staff Director for Management	5,434,511	2,092,294	2,010,038	-3,342,217	-61.5	-82,256	-3.9
Reserve Bank Operations and Payment Systems	11,889,570	12,687,458	13,155,644	797,888	6.7	468,186	3.7
Information Resources Management (IRM) ..	23,573,407	23,490,304	25,316,792	-83,103	-.4	1,826,488	7.8
Monetary Affairs	7,911,399	8,306,883	8,513,060	395,484	5.0	206,177	2.5
Special projects	3,339,685	3,222,578	2,134,052	-117,107	-3.5	-1,088,526	-33.8
IRM income account ¹ ..	-15,914,071	-16,796,350	-14,770,026	-882,279	-5.5	2,026,324	12.1
Total, Board operations	136,302,595	143,132,357	153,065,800	6,829,762	5.0	9,933,443	6.9
Extraordinary items	436,473	980,000	3,215,000	543,527	...	2,235,000	...
Office of Inspector General	2,709,794	2,932,068	3,110,862	222,274	8.2	178,794	6.1

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

and the number of authorized staff positions budgeted for Board operations is shown in table 2.2.

Personnel costs for current positions are increasing \$7.2 million, and personnel costs for new positions are increasing \$0.6 million (table 2.3). The increase is largely for salaries. The budget includes \$5.0 million for staff salary increases averaging 5.5 percent. The full-year costs in 1995 of the salaries and fringe benefits for new positions filled during 1994 account for \$0.6 million. A change in the accounting treatment of reimbursements from other agencies is resulting in a \$0.4 million increase in salaries. Fewer vacancies, more projected reclassifications, and other salary actions account for \$0.7 million. The expense for fringe benefits

(retirement and insurance) is increasing \$0.5 million, which is significantly less than in previous years, particularly for health insurance, for which rates stayed relatively constant.

The overall increase in the cost of goods and services, \$2.1 million, is exclusively for initiatives. The cost of goods and services necessary to maintain Board operations at the current level is declining slightly, with increases in some categories largely being offset by decreases in other categories. Some of the changes deserve mention. The largest single increase is \$1.4 million for additional space at New York Avenue in 1994 (\$0.3 million) and 1995 (\$1.1 million). These increases are more than offset by a number of factors, the largest of which are a decline of \$0.6 million in

Table 2.2

Positions Authorized at the Board of Governors, by Division or Office, 1993–95

Division or office	1993 actual	1994 estimate	1995 budget	Change	
				1993 to 1994	1994 to 1995
Board Members	38	42	42	4	0
Secretary	59	60	60	1	0
Legal	84	85	87	1	2
Research and Statistics	276	276	276	0	0
International Finance	110	110	110	0	0
Banking Supervision and Regulation	239	247	249	8	2
Human Resources Management	48	50	50	2	0
Concern ¹	22	22	22	0	0
Support Services	260	260	260	0	0
Controller	31	33	35	2	2
Consumer and Community Affairs	53	57	66	4	9
Staff Director for Management	11	10	11	-1	1
Reserve Bank Operations and Payment Systems	126	127	127	1	0
Information Resources Management ²	252	250	250	-2	0
Monetary Affairs	66	68	68	2	0
Total, Board operations	1,675	1,697	1,713³	22	16
Office of Inspector General	32	32	32	0	0
Reimbursable IRM support ²	17	17	18	0	1

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

2. Positions that provide IRM support to the Federal Financial Institutions Examination Council for HMMA processing on a reimbursable basis are shown separately, as reimbursable IRM support.

3. Includes eleven summer intern positions and seventeen youth positions, as well as thirty-three positions that will be eliminated by year-end.

the 1995 costs for the Federal Reserve Communication System, for which there are no further development charges; additional income of \$0.6 million resulting from the accounting change mentioned above; reimbursement by the Reserve Banks and other agencies for

use of the mainframe computer; and the savings target.

Facilities, automation infrastructure, and automation and telecommunications initiatives necessary to continue implementation of the Board's ongoing automation/telecommunications plan are

Table 2.3

Operating Expenses of the Board of Governors, by Object of Expense, 1993–95

Dollars, except as noted

Object of expense	1993 actual	1994 estimate	1995 budget	Change, 1993 to 1994		Change, 1994 to 1995	
				Amount	Percent	Amount	Percent
<i>Personnel services</i>							
Salaries	87,599,597	90,622,438	97,886,832	3,022,841	3.5	7,264,394	8.0
Retirement	7,068,246	7,647,768	7,776,886	579,522	8.2	129,118	1.7
Insurance	7,706,077	8,084,796	8,506,959	378,719	4.9	422,163	5.2
Subtotal	102,373,920	106,355,002	114,170,677	3,981,082	3.9	7,815,675	7.3
<i>Goods and services</i>							
Travel	4,585,941	4,826,011	4,878,152	240,070	5.2	52,141	1.1
Postage and expressage	1,210,452	1,257,840	1,323,500	47,388	3.9	65,660	5.2
Telecommunications ..	1,866,344	1,971,860	1,729,300	105,516	5.7	-242,560	-12.3
Printing and binding ..	1,052,358	1,180,939	1,194,000	128,581	12.2	13,061	1.1
Publications	-334,756	35,900	-165,100	370,656	110.7	-201,000	-559.9
Stationery and supplies	847,364	852,688	894,040	5,324	.6	41,352	4.8
Software	2,826,065	2,861,024	3,592,056	34,959	1.2	731,032	25.6
Furniture and equipment	1,257,199	1,308,555	1,112,278	51,356	4.1	-196,277	-15.0
Rentals	231,014	3,228,184	3,584,444	2,997,170	1,297.4	356,260	11.0
Books and subscriptions	754,896	931,109	981,303	176,213	23.3	50,194	5.4
Utilities	1,877,818	2,175,000	2,240,000	297,182	15.8	65,000	3.0
Building repairs and alterations	1,330,905	1,712,693	2,075,850	381,788	28.7	363,157	21.2
Building repairs and maintenance ..	2,102,307	2,189,404	2,341,783	87,097	4.1	152,379	7.0
Contingency Processing Center expenses ..	201,100	184,000	32,000	-17,100	-8.5	-152,000	-82.6
Contractual professional services	5,175,207	6,291,465	7,020,091	1,116,258	21.6	728,626	11.6
Tuition/registration and membership fees	981,023	1,305,630	1,444,627	324,607	33.1	138,997	10.6
Subsidies and contributions	768,186	969,565	755,672	201,379	26.2	-213,893	-22.1
Depreciation	6,563,369	6,869,373	7,633,778	306,004	4.7	764,405	11.1
All other	631,883	-3,373,885	-3,772,651	-4,005,768	-633.9	-398,766	-11.8
Subtotal	33,928,675	36,777,355	38,895,123	2,848,680	8.4	2,117,768	5.8
Total, Board operations	136,302,595	143,132,357	153,065,800	6,829,762	5.0	9,933,443	6.9
Extraordinary items ...	436,473	980,000	3,215,000	543,527	...	2,235,000	...
Office of Inspector General	2,709,794	2,932,068	3,110,862	222,274	8.2	178,794	6.1

the major component of the increase in goods and services. Investments in maintaining Board facilities are consistent with long-term plans and needed to ensure reliability, safety, and efficiency.

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 1993–95 are shown in tables 2.4 and 2.5.

Monetary and Economic Policy

The 1995 budget for monetary and economic policy is \$65,755,000, an increase of \$4,567,000, or 7.5 percent, over estimated 1994 expenses. Activities in this operational area include the Board's monitoring and analysis of developments in the money and credit markets, setting of reserve requirements,

approval of changes in the discount rate, and other activities related to managing the nation's monetary policy. The increase in this area is mainly a result of automation initiatives and staff salary increases.

Supervision and Regulation

The 1995 budget for supervision and regulation is \$55,641,000, an increase of \$3,355,000, or 6.4 percent, over estimated 1994 expenses. Supervision of financial institutions includes review of examination reports on state member banks and inspection reports on bank holding companies prepared by the Reserve Banks, special studies related to international applications, direction of enforcement actions, and regulation of trust activities. Regulation includes the formulation of regulations, oversight of merger and foreign banking activities, enforcement of compliance with consumer regulations, and regulation of securities credit. The percentage increase for this operational area is less than the percentage increase for the overall budget because of savings resulting

Table 2.4

Expenses of the Board of Governors for Operational Areas,
Extraordinary Items, and Office of Inspector General, 1993–95¹

Thousands of dollars, except as noted

Type of expense	1993 actual	1994 estimate	1995 budget	Change, 1993 to 1994		Change, 1994 to 1995	
				Amount	Percent	Amount	Percent
Monetary and economic policy	59,552	61,188	65,755	1,636	2.7	4,567	7.5
Supervision and regulation ..	49,141	52,286	55,641	3,145	6.4	3,355	6.4
Services to financial institutions and the public	2,736	3,014	2,982	278	10.2	-32	-1.1
System policy direction and oversight	24,874	26,644	28,687	1,770	7.1	2,043	7.7
Total, Board operations ...	136,303	143,132	153,065	6,829	5.0	9,933	6.9
Extraordinary items	436	980	3,215	544	...	2,235	...
Office of Inspector General ..	2,710	2,932	3,111	222	8.2	179	6.1

1. Operating expenses include allocations for support and overhead.

from a reduction in the rates charged for use of the new mainframe computer. These savings offset a significant portion of the cost of salary increases and new positions in the Consumer and Community Affairs (9), Legal (2), and Banking Supervision and Regulation (2) Divisions, increased requirements for support from the Division of Information Resources Management (IRM), and automation initiatives.

Services to Financial Institutions and the Public

The 1995 budget for oversight of Reserve Bank services to financial institutions and the public is \$2,982,000, a decrease of \$32,000, or 1.1 percent, from estimated 1994 expenses. This operational area provides support and oversight of the payments mechanism activities of the Federal Reserve Banks and Branches, specifically, evaluation of the operational and pricing performance of the check-payment activities of the

Reserve Banks; oversight of the electronic payments mechanism; and annual evaluation of the Federal Reserve System's currency, coin, and food coupon operations. The slight decline in costs reflects savings resulting from slightly lower salary projections for 1995.

System Policy Direction and Oversight

The 1995 budget for System policy direction and oversight is \$28,687,000, an increase of \$2,043,000, or 7.7 percent, over estimated 1994 expenses. This operational area covers oversight, direction, and supervision of Board and Reserve Bank programs. It includes programs that directly support Board members in carrying out their oversight function for Reserve Bank operations, budgeting and accounting, financial examinations, audit and operations reviews, and automation and communications. Salary increases are the

Table 2.5

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1993–95

Activity	1993 actual	1994 estimate	1995 budget	Change, 1993 to 1994		Change, 1994 to 1995	
				Amount	Percent	Amount	Percent
Monetary and economic policy	436	438	438	2	.5	0	.0
Supervision and regulation ...	377	384	397	7	1.9	13	3.4
Services to financial institutions and the public	21	21	21	0	.0	0	.0
System policy direction and oversight	167	166	167	-1	-.6	1	.6
Support and overhead ¹	674	688	690	14	2.1	2	.3
Total, Board operations	1,675	1,697	1,713²	22	1.3	16	.9
Office of Inspector General ...	32	32	32	0	.0	0	.0
Reimbursable IRM support ¹ ..	17	17	18	0	.0	1	5.9

1. Positions that provide IRM support to the Federal Financial Institutions Examination Council for HMDA processing on a reimbursable basis are shown separately, as reimbursable IRM support.

2. Includes eleven summer intern positions and seventeen youth positions, as well as thirty-three positions that will be eliminated by year-end.

largest single factor in the higher costs for this area.

Capital Budget

The Board's 1995 capital budget of \$12.5 million provides for facilities improvements, improved mainframe services and office automation, and furniture.

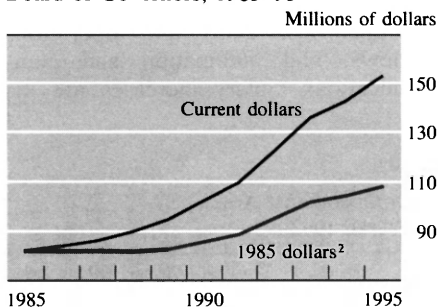
Approximately \$5.4 million is budgeted for a number of projects associated with maintaining the integrity of the existing buildings: \$1.5 million to continue a project to improve heating, ventilation, and air conditioning in the Eccles Building; \$2.6 million to cover a portion of the cost of replacing the chiller system made obsolete by restric-

tions on the production of freon; and \$1.3 million for ongoing modifications and other building maintenance projects.

A total of \$4.3 million is budgeted to acquire mainframe disk access storage devices (DASD), expand the premises-wide network for efficient data communications and data transfers, improve distributed services, upgrade hardware and software, and acquire new technology for pilot projects. The budget also provides \$2.0 million to enhance office automation and telecommunications equipment and to continue the development and implementation of the Board's Administrative Systems Automation Project (ASAP). The remaining funds are for smaller projects mainly to provide for office automation.

Chart 2.1

Operating Expenses of the Board of Governors, 1985–95¹



Year	Expenses in millions of	
	Current dollars	1985 dollars
1985	82.0	82.0
1986	84.0	81.9
1987	86.2	82.0
1988	89.9	81.8
1989	95.3	83.0
1990	102.4	85.6
1991	109.8	88.6
1992	122.8	95.1
1993	136.3 ³	101.6
1994	143.1	104.2
1995	153.1	107.9

1. Excludes the Office of Inspector General and extraordinary items. For 1994, estimate; for 1995, budget.

2. Calculated with the GDP price deflator.

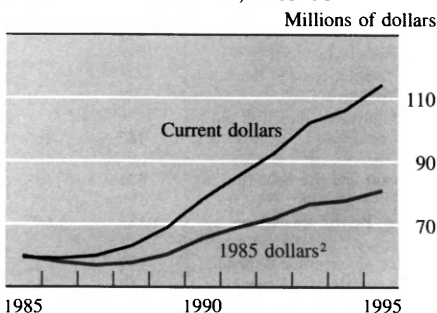
3. Number slightly revised from earlier edition.

Trends in Expenses and Employment

The increase in the operations budget from 1994 to 1995, 6.9 percent, exceeds the 5.0 percent increase from 1993 to 1994 mainly because of the small merit pay increase in 1994. The 1995 increase is lower than the 8.4 percent average annual rate of increase over the past five years but higher than the 6.4 percent

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1985–95¹



1. Excludes the Office of Inspector General and extraordinary items. For 1994, estimate; for 1995, budget.

2. Calculated with the GDP price deflator.

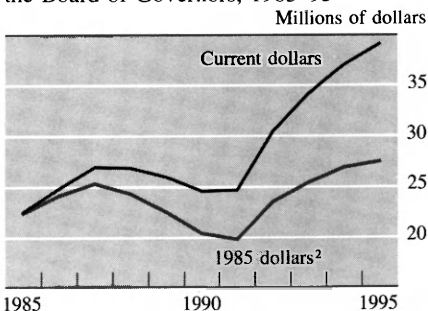
average annual rate over the past ten years. The higher rate of growth in the recent period reflects the substantial growth in the supervision and regulation operational area related first to safety and soundness and more recently to consumer issues. Charts 2.1–2.5 show trends over the period from 1985.

Approximately 75 percent of Board operating expenses are for personnel; consequently, any discussion of trends must consider the number of positions. Over the past ten years the number of positions authorized for Board operations at year-end has increased from 1,580 to 1,652, an increase of 72 positions, or 4.6 percent.

The number of positions declined from 1,580 in 1985 to a low of 1,529 in 1990. At that point, position increases in the supervision and regulation area began exceeding position decreases in the other operational areas and in overhead. Since 1985, the number of authorized positions for several divisions has increased significantly—Banking Supervision and Regulation (106 positions, or 77 percent), Consumer and Community Affairs (23 positions, or 53 percent), and Legal (26 positions, or

Chart 2.3

Expenses for Goods and Services at the Board of Governors, 1985–95¹

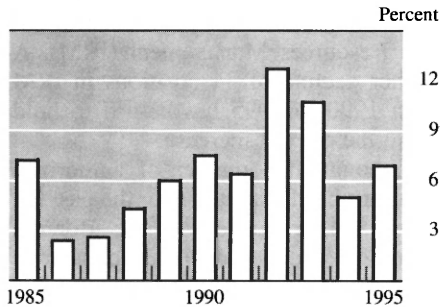


1. Excludes the Office of Inspector General and extraordinary items. For 1994, estimate; for 1995, budget.

2. Calculated with the GDP price deflator.

Chart 2.4

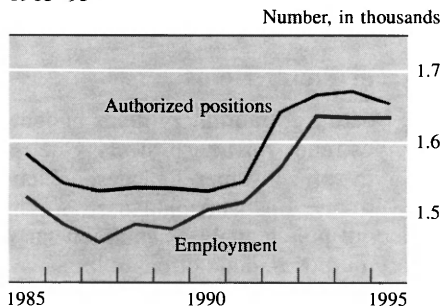
Annual Rate of Change in Operating Expenses of the Board of Governors, 1985–95¹



1. Excludes the Office of Inspector General and extraordinary items. For 1994, estimate; for 1995, budget.

Chart 2.5

Employment and Authorized Positions at the Board of Governors, 1985–95¹



Year	Employment	Authorized positions
1985	1,521	1,580
1986	1,484	1,540
1987	1,457	1,529
1988	1,484	1,534
1989	1,477 ²	1,533
1990	1,505	1,529
1991	1,517	1,542
1992	1,563	1,639
1993 ²	1,636	1,664
1994 ²	1,634	1,669
1995	1,634	1,652

1. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General, which for 1995 number 28 and 32 positions respectively; 1995 figures also exclude 18 positions that provide support to the FFIEC for processing of HMDA data as well as thirty-three positions that will be eliminated by year-end. For 1994, estimate; for 1995, budget.

2. Numbers slightly revised from earlier edition.

44 percent)—with most of the increase occurring over the past five years. The main factor in the decline in positions from 1985 to 1990 was a decrease of 64 positions in the Division of Information Resources Management (IRM). A further decline of 34 positions in IRM from 1990 to 1995 has helped to hold down the overall increase.

Although the number of authorized positions has fluctuated over the past ten years, the proportion of the Board's operations budget devoted to salaries has remained relatively stable at roughly 65 percent. The proportion devoted to retirement and insurance has increased, largely because of increases in health insurance costs, a change in the law that applies Medicare costs to federal employees, and changes in the Board contribution rate for the thrift plan.

Extraordinary Items

The Board's extraordinary items budget provides funds for four projects. One is a survey of consumer finances, which will provide financial data used for a variety of policy analyses and monetary policy purposes. This effort reflects the Board's interest in enhancing the quality of economic data by obtaining information on the income, assets, debts, pensions, employment, use of financial services, savings behavior, and other characteristics of U.S. households. Cross-categorization of the data will allow important statistical observations, useful in a wide variety of economic studies. Included in the budget is \$2.8 million for the 1995 portion of the \$3.25 million required for the survey.

A second project is a survey of plant capacity to gather information from manufacturing establishments and produce utilization rates at the three- to four-digit industry level for year-end 1993 and 1994. The information will be

used to improve the benchmark for data published monthly in the Board's *Industrial Production and Capacity Utilization* statistical release. The amount included in the budget, \$125,000, is the Board's share of the cost of conducting the survey.

Also included in the extraordinary items budget are funds associated with 1995 audits of Reserve Banks. The 1995 startup costs for the new audit plan—which will use outside auditors to review the System Open Market Account, roughly two Reserve Banks a year, and the combined financial statement of the twelve Reserve Banks—are budgeted at \$240,000.

The final project is a survey to help determine the amount of currency held abroad and the extent to which counterfeited currency is a problem in foreign countries. The results of a pilot project currently under way will influence the amount needed to complete this survey; the 1995 budget provides \$50,000, but eventually as much as \$200,000 may be required. ■

Chapter 3

Federal Reserve Banks

The 1995 operating budgets for the twelve Federal Reserve Banks approved by the Board of Governors total \$1,869.3 million, an increase of \$64.1 million, or 3.6 percent, over estimated 1994 expenses (table 3.1). Not included in the budgets are the costs of two Bank special projects—Development of Currency Authentication Systems (\$1.3 million) and Automation Consolidation (\$37.8 million).¹ Including the costs of the special projects, the Banks' 1995 budgets total \$1,908.4 million, an increase of \$41.0 million, or 2.2 percent.

Employment excluding the staff associated with FRAS is budgeted at 23,240 ANP (average number of personnel), a decrease of 594 ANP, or 2.5 percent from estimated 1994 employment.² Including the FRAS staff, total budgeted employment is 23,832, a decrease of 491 ANP from estimated 1994 employment.

Expenses for personnel (salaries and benefits) account for \$1,183.8 million, or 63 percent of the 1995 operations budget, an increase of \$15.2 million, or 1.3 percent, over estimated 1994 personnel expenses (table 3.2). Nonpersonnel expenses (primarily for building and automation projects) are budgeted at \$685.5 million, an increase of \$48.9 million, or 7.7 percent, over estimated 1994 nonpersonnel expenses.

The following two sections discuss major initiatives and the budget objective for the Reserve Banks in 1995. Subsequent sections provide details for the four operational areas as well as for 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 1995 Reserve Bank budgets provide for the following initiatives (table 3.3):

- Continuation of the automation consolidation project
- Installation of the Fednet communications network
- Installation of new high-speed currency processors
- Continued expansion of efforts in supervision and regulation
- Upgrading of check-processing equipment
- Continuation of the regionalization of savings bond operations
- Early retirement programs in several Districts.

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 for the Reserve Banks). FRAS charges to the Automation Consolidation special project in 1995 are budgeted at \$32.7 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.

The automation consolidation initiative is budgeted to increase \$14.9 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.

The 1995 budgeted increase of \$5.4 million for the Fednet communications network is due to additional circuit rentals, network equipment, and maintenance charges. The increase is being partially offset by lower costs for local circuits within Districts and the cost of District communications services being assumed by Fednet.

New projects related to currency are increasing \$13.3 million over estimated 1994 expenses. The largest portion of

the increase is due to the installation of thirty-eight new currency processors (ISS-3000) in eight Districts in 1995. The remainder of the increase is associated with higher maintenance and depreciation expenses, additional staff at three Reserve Banks to operate the new currency equipment, and the renovation and remodeling of cash areas to accommodate the equipment.

Although economic conditions within the banking industry have improved, the Reserve Banks have budgeted for several specific projects related to supervision and regulation that are increasing the 1995 budget a total of \$7.2 million over estimated 1994 expenses. The increase is due mainly to the heightened emphasis on fair lending laws, the development and implementation of new Community

Table 3.1

Expenses and Employment at the Federal Reserve Banks, 1994 and 1995¹

Category	1994 estimate	1995 budget	Change	
			Amount	Percentage
<i>Expenses (millions of dollars)</i>				
Operations ²	1,805.2	1,869.3	64.1	3.6
Special projects	62.2	39.1	-23.1	...
Total	1,867.4	1,908.4	41.0	2.2
<i>Employment (average number of personnel)³</i>				
Operations ²	23,834	23,240	-594	-2.5
FRAS	489	592	103	...
Total	24,323	23,832	-491	-2.0

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, 1993–95¹

Millions of dollars, except as noted

Object	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Personnel	1,144.5	1,168.6	1,183.8	2.1	1.3
Nonpersonnel	567.0	636.6	685.5	12.3	7.7
Total	1,711.5	1,805.2	1,869.3	5.5	3.6

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

Reinvestment Act guidelines and performance measures, and the use of regression analysis in all eligible examinations of state member banks. Also contributing to the increase is the international supervisory program, including enhanced efforts associated with the Foreign Bank Supervision Enhancement Act (FBSEA); training and examinations in the mutual funds and derivatives areas; and the increased complexity of examinations resulting from mergers and consolidations and of supervision of risk-related initiatives.

Upgrading of check-processing equipment is budgeted to increase \$2.1 million over estimated 1994 expenses. The upgrades will enhance the Banks' capability to provide high-quality, innovative, cost-effective check services in the long run, mainly by automating manual processes and upgrading equipment and software. Several Banks plan to acquire and install high-speed image equipment for processing of government checks. Many Banks also plan to offer commercial check image products to depository institutions and are upgrading sorters and check-processing control-

system software with image-capable equipment.

In 1992, the Department of the Treasury decided to consolidate savings bond operations in the Federal Reserve System. Five Districts were designated as regional processing sites—New York (Buffalo office), Cleveland (Pittsburgh office), Richmond, Minneapolis, and Kansas City. The consolidation is expected to be completed by 1996. Included in the budget for consolidation activities is \$24.3 million, a decrease of \$1.1 million from estimated 1994 expenses. The decrease is due to staff reductions in the non-processing Districts.

1995 Budget Objective

In 1994, the Board of Governors approved a 1995 Reserve Bank budget objective that provided for an increase in total expenses, including special projects, of \$67.9 million, or 3.6 percent, over estimated 1994 expenses. Excluding expenses for special projects, which were expected to decline in 1995, the increase was projected to be 4.9 percent. The Board anticipated that

Table 3.3

Major Initiatives of the Federal Reserve Banks, 1994 and 1995

Million of dollars, except as noted

Initiative	1994 estimate	1995 budget	Change, 1994 to 1995	Change as percentage of 1995 operating budget
Automation consolidation	48.4	63.3	14.9	.8
Fednet	50.2	55.6	5.4	.3
ISS-3000 currency processors	11.8	25.1	13.3	.7
Supervision and regulation	4.8	12.0	7.2	.4
Check-processing equipment	5.2	7.3	2.1	.1
Savings bonds regionalization	25.4	24.3	-1.1	-.1
Early retirement programs	1.1	-18.7	-19.8	-1.1
Total	146.9	168.9	22.0	1.2
MEMO				
Total operating expenses	1,805.2	1,869.3	64.1	3.6

*Table 3.4*1995 Budget Objective and Budget of the Federal Reserve Banks¹

Percent change from 1994 expenses

Item	Budget objective	Budget
Continuing operating expenses ...	2.5	2.0
Budget factors	2.4	1.6
Total excluding special projects ..	4.9	3.6
MEMO		
Special projects	-1.3	-1.4
Total including special projects ..	3.6	2.2

1. See data on expenses in table 3.1.

within this guideline, continuing operations would increase 2.5 percent over estimated 1994 expenses. Expenses for several budget factors—automation consolidation, Fednet, installation of currency processors, and savings bond regionalization—would account for \$52.5 million of the overall projected 1995 increase. Table 3.4 compares the 1995 budget objective with the 1995 approved budget.

The 1995 budget increase for continuing operations is \$9.8 million less than anticipated in the budget objective. The increase is less than the 2.5 percent target owing to larger-than-anticipated staff reductions, far exceeding the \$6.0 million savings target established in the budget objective. The 1995

budget assumes staff reductions of 594 ANP, excluding FRAS, compared with the budget objective projected reduction of 436 ANP. Several Banks have budgeted for lower-than-anticipated staff levels because of lower volume, reduced requirements for data processing staff, and greater operational efficiencies. Staff reductions are projected for all operational areas except supervision and regulation. The most significant staff decrease, 288 ANP, is projected for the commercial check area.

The increase of \$32.5 million for budget factors is \$20.0 million below the target approved by the Board. The automation consolidation factor is \$21.3 million lower than the objective owing to greater-than-anticipated savings from the closing of Reserve Bank data centers, staff reductions, and the move to the communal operating environment. The Fednet factor is also lower than anticipated, increasing \$5.4 million rather than the anticipated \$8.0 million included in the budget objective, primarily because of savings associated with local circuit costs and services being assumed by Fednet. The budget objective anticipated a savings of \$4.3 million related to the savings bond regionalization effort currently under way. The 1995 budget includes

*Table 3.5*Operating Expenses of the Federal Reserve Banks, by Operational Area, 1993–95¹

Thousands of dollars, except as noted

Operational area	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Monetary and economic policy	114,617	124,373	135,055	8.5	8.6
Services to the U.S. Treasury and other government agencies	193,621	212,276	221,099	9.6	4.2
Services to financial institutions and the public	1,076,914	1,108,638	1,118,635	2.9	.9
Supervision and regulation	326,334	359,896	394,529	10.3	9.6
Total	1,711,486	1,805,185	1,869,317	5.5	3.6

1. Excludes special projects.

a savings of only \$1.1 million, mainly because staffing levels will remain higher than projected: The budget objective assumed a net decrease of 73 ANP, but the 1995 budget is based on a net decrease of only 36 ANP.

The 1995 budget for special projects is \$2.3 million below the budget objective. Lower-than-anticipated charges to the Automation Consolidation special project by FRAS and the Reserve Banks are primarily responsible for the variance.

Budget by Operational Area

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 1995 budget for the monetary and economic policy operational area is \$10.7 million, or 8.6 percent, larger than estimated 1994 expenses. Approximately 40 percent of the increase is due to the impact of the automation consolidation budget factor. The budget also reflects several System and District initiatives, including the new Statistics and Reserves System (STAR) project, the second phase of the Trading Room Automated Processing System (TRAPS) project,

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1993–95¹

Average number of personnel, except as noted²

Category	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
<i>Operational areas</i>					
Monetary and economic policy	751	746	747	-.7	.1
Services to the U.S. Treasury and other government agencies	1,780	1,771	1,725	-.5	-2.6
Services to financial institutions and the public	8,610	8,349	8,065	-3.0	-3.4
Supervision and regulation	2,910	3,080	3,161	5.8	2.6
<i>Support and overhead</i> ³					
Support	4,762	4,668	4,468	-2.0	-4.3
Overhead	5,183	5,219	5,074	.7	-2.8
Total	23,996	23,833	23,240	-.7	-2.5

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, 1993–95¹

Thousands of dollars, except as noted

Service	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Economic policy determination	93,018	98,833	108,048	6.3	9.3
Open market trading	21,599	25,540	27,007	18.2	5.7
Total	114,617	124,373	135,055	8.5	8.6

1. Excludes special projects.

and other automation projects. The staffing level remains flat overall, with slight changes in staffing by District. Early retirement programs resulted in staff reductions in the economic policy determination service that offset the increases needed to expand expertise in the assessment and control of financial

system risk resulting from new and complex financial instruments.

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

The 1995 budget for services to the Treasury and other government agencies

Table 3.8

Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1993–95¹

Thousands of dollars, except as noted

Service	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Savings bonds	37,843	15,480	0	-59.1	-100.0
Consolidated operations—savings bonds ..	36,849	64,485	76,493	75.0	18.6
Other Treasury issues	17,677	18,867	20,530	6.7	8.8
Consolidated operations—other Treasury issues	1,139	2,623	2,681	130.3	2.2
Centrally provided Treasury and agency services	22,558	22,955	25,989	1.8	13.2
Government accounts	28,155	34,108	37,525	21.1	10.0
Food coupons	21,443	22,326	23,468	4.1	5.1
Other	27,956	31,432	34,413	12.4	9.5
Total	193,621	212,276	221,099	9.6	4.2

1. Excludes special projects.

Table 3.9

Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1993–95¹

Thousands of dollars, except as noted

Service	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Currency	181,892	194,814	215,839	7.1	10.8
Coin	25,454	26,610	27,819	4.5	4.5
Special cash	6,247	5,797	5,069	-7.2	-12.6
Commercial check	523,584	532,698	521,011	1.7	-2.2
Other check	32,668	36,783	39,797	12.6	8.2
Funds transfer	69,087	72,931	66,413	5.6	-8.9
Automated clearinghouse	90,339	86,962	84,222	-3.7	-3.2
Book-entry securities transfer	33,773	35,846	37,523	6.1	4.7
Definitive securities safekeeping and noncash collection	11,098	8,545	7,118	-23.0	-16.7
Loans to member banks and others	17,204	18,789	21,359	9.2	13.7
Public programs	56,516	59,573	64,365	5.4	8.0
Other	29,053	29,290	28,100	.8	-4.1
Total	1,076,914	1,108,638	1,118,635	2.9	.9

1. Excludes special projects.

is \$8.8 million, or 4.2 percent, higher than estimated 1994 expenses. The automation consolidation budget factor is contributing half of the overall increase. Also in the budget are several projects currently being performed for the Treasury. The staffing level is budgeted to decrease by 46 ANP as savings bond operations are consolidated at the five regional sites.

Services to Financial Institutions and the Public

Expenses for this operational area, which encompasses both priced and nonpriced services, are budgeted to increase \$10.0 million, or 0.9 percent, in 1995. The staffing level is budgeted to decrease by 284 ANP, owing mainly to reductions for the commercial check (288) and automated clearinghouse (8) services.

The commercial check service accounts for nearly half of the amount budgeted for this operational area and employs 4,775 ANP. The 1995 budget for this service reflects a decrease in expenses of \$11.7 million, or 2.2 percent, a result of projections of lower volume, greater operational efficiencies, and early retirement programs; the staffing level is expected to decline by

288 ANP, or 5.7 percent, from the estimated 1994 level. Although forecasts differ from District to District owing to the varied effect of same-day settlement, growing competition, industry consolidation, and new check products, check volume overall has stabilized from the substantial loss in 1994, and a 0.1 percent decrease is anticipated for 1995. The expense reductions and relatively constant volume lead to a projection of a unit cost reduction of 3.4 percent for the commercial check service in 1995.

Expenses for the currency service are expected to increase \$21.0 million, or 10.8 percent, in 1995, mainly because of the installation of the new cash processors. While offices that have completed installation of the new ISS-3000 processors are trimming staff owing to improved efficiencies, offices that will migrate to second-generation equipment in 1995 are increasing staff during the transition period. Overall, currency operations will show a net increase of 10 ANP. A 3.4 percent volume increase is projected in currency operations, with unit cost rising 7.2 percent.

The budget for the automated clearinghouse (ACH) service is declining \$2.7 million, or 3.2 percent, primarily

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1993–95¹

Thousands of dollars, except as noted

Service	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Supervision of District financial institutions	224,679	219,127	238,782	-2.5	9.0
Consumer affairs .....	...	28,578	33,870	...	18.5
Administration of laws and regulations related to banking	86,585	96,087	103,527	11.0	7.7
Studies of banking and financial market structures	15,070	16,105	18,350	6.9	13.9
Total	326,334	359,896	394,529	10.3	9.6

1. Excludes special projects.

because of the movement toward a centralized applications operating environment. ACH volume is expected to increase 13.3 percent.

Expenses for the funds transfer service are expected to decrease \$6.5 million, or 8.9 percent, owing mainly to the full-year impact of savings associated with conversion to the centralized funds transfer software.

Supervision and Regulation

The 1995 budget increase for the supervision and regulation operational area of \$34.6 million, or 9.6 percent, over estimated 1994 expenses reflects a staff increase of 81 ANP. The staff increase is necessary mainly to support several initiatives, including a major expansion of the Foreign Banking Organization supervision program, expanded fair lending/CRA initiatives and workloads, examinations related to mutual funds

and derivatives, more-complex examinations resulting from mergers and consolidations, and automation and training efforts. Minor staff decreases are planned for several Districts owing to increased productivity and improved banking conditions.

Budget by Object of Expense

Personnel expenses—officer and employee salaries, other compensation to personnel, and retirement and other benefits—account for 63 percent of Reserve Bank operating expenses budgeted for 1995. The amount budgeted for 1995 is 1.3 percent greater than estimated 1994 expenses (table 3.11).

Salaries and other personnel expenses, which account for 49 percent of budgeted 1995 operating expenses, are expected to be \$11.5 million, or 1.3 percent, greater than estimated 1994 expenses. Expenses for salaries are expected to

Table 3.11

Operating Expenses of the Federal Reserve Banks, by Object, 1993–95¹

Thousands of dollars, except as noted

Object	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
PERSONNEL					
Officers' salaries	88,072	91,673	92,674	4.1	1.1
Employees' salaries	774,343	787,148	809,455	1.7	2.8
Other personnel ²	30,721	30,828	19,048	.3	-38.2
Retirement and other benefits	251,403	258,941	262,639	3.0	1.4
Total personnel	1,144,539	1,168,590	1,183,816	2.1	1.3
NONPERSONNEL					
Forms and supplies	55,726	53,660	54,170	-3.7	1.0
Equipment	183,649	186,889	161,531	1.8	-13.6
Software	32,488	32,089	30,857	-1.2	-3.8
Shipping	79,118	78,989	79,081	-2	.1
Travel	41,974	42,699	44,086	1.7	3.2
Buildings	148,387	154,166	159,596	3.9	3.5
Recoveries	-46,974	-48,845	-50,148	4.0	2.7
Other ³	70,580	136,948	206,327	88.7	50.7
Total nonpersonnel	566,947	636,595	685,500	12.3	7.7
Total	1,711,486	1,805,185	1,869,317	5.5	3.6

1. Excludes special projects and FRAS.

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

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

increase \$23.3 million, or 2.7 percent. Merit pay accounts for a large portion of this increase. Also contributing to additional salary expenses are promotions, reclassifications, and structure adjustments. These increases are being partially offset by savings of \$16.4 million from staff reductions. Short-term position vacancies (lag) and lower overtime expenses are also contributing to savings. The decrease in other personnel expenses (\$11.8 million) reflects a decline in the use of contract staff after the transition to FRAS and a decline in separation pay in 1995 after significant adjustments for data processing staff in 1994.

Expenditures for retirement and other benefits, which account for 14 percent of budgeted 1995 operating expenses, are expected to be \$3.7 million, or 1.4 percent, greater than estimated 1994 expenses. Most of the 1995 increase is due to three factors: Social security expenses are increasing \$1.0 million, other benefit payments are increasing \$1.6 million, and thrift plan expenses are increasing \$0.8 million. The increases in social security and thrift plan expenses, the result of merit salary programs, are being partially offset by staff reductions. The unusually high increase in other benefit payments is due to a subsidy to New York employees who use public transportation. Health care costs, which had been increasing rapidly, are projected to decrease in 1995 for both active and retired employees. Coverage for active employees is budgeted at \$0.4 million, or 0.6 percent, below estimated 1994 expenses. Retiree medical expenses are budgeted at \$0.3 million, or 0.5 percent, less than estimated 1994 expenses, mainly because of staff reductions, an emphasis on managed care, lower claims experience, and lower rates due to administrative efficiencies.

Nonpersonnel expenses, which account for 37 percent of budgeted 1995 operating expenses, are projected to increase 7.7 percent over estimated 1994 expenses.

Expenses for equipment are budgeted to decrease 13.6 percent, accounting for approximately 9 percent of budgeted 1995 operating expenses. The most significant factor is a shift of \$20.2 million from Chicago to FRAS related to the transfer of the Network Management Control Center (NMCC)—equipment rentals of \$12.9 million, depreciation expense of \$4.6 million, and repairs and maintenance costs of \$2.7 million. In addition, equipment rentals excluding rentals related to the NMCC are decreasing \$11.6 million, mainly owing to the conversion of local circuits to Fednet. Partially offsetting these decreases are increases in equipment depreciation and equipment maintenance of approximately \$7.2 million, which are due mainly to currency- and check-processing equipment.

Shipping expenses, which account for approximately 4 percent of Reserve Bank budgeted 1995 operating expenses, are expected to increase \$0.1 million, or 0.1 percent, over estimated 1994 expenses. The increase will be partially offset by reduced use of postal services and a slight decrease in total Interdistrict Transportation Service (ITS) costs from the 1994 level.

Building expenses, which account for about 9 percent of budgeted 1995 operating expenses, are expected to increase 3.5 percent over estimated 1994 expenses. The increase is driven by increased property depreciation resulting from building improvements and renovations, some of which are related to the installation of ISS-3000 currency processors.

"Other" nonpersonnel expenses are budgeted to increase \$69.4 million over

estimated 1994 expenses, accounting for approximately 11 percent of budgeted 1995 operating expenses. The increase is due primarily to higher data processing charges from FRAS and higher data communications charges as a result of Fednet.

Capital Outlays

For the next three years, the Reserve Banks' capital budget will be dominated by proposed or ongoing building projects in Cleveland, Minneapolis, Atlanta, and New York. Cleveland's building will be extensively renovated to extend its useful life, improve life safety systems, and enhance the security of valuables handled by the Bank. An annex will be constructed on the bank-owned parking lot adjacent to the existing building. During 1995, the structural steel for the annex will be erected and the structure fully enclosed.

Excavation and foundation work for the new building in Minneapolis will proceed in 1995; construction is expected to be completed in 1997. Atlanta has budgeted for a proposed new head office

facility and a new building for the Birmingham Branch; funds for land and architectural fees for both projects are included in the 1995 capital budget. New York will continue renovation of its head office building, a project that will be spread over ten years or more and will result in upgrading of the entire building.

For 1995, capital outlays (including funding for FRAS) are budgeted at \$378.5 million, an increase of \$89.1 million, or 31 percent, over estimated 1994 expenses (excluding FRAS, the increase is \$104.2 million) (table 3.12). The increase is driven by the building projects in Cleveland, Atlanta, and Minneapolis.

Outlays for buildings are budgeted at \$123.5 million, about 33 percent of total capital outlays. The budget includes the new building programs in Minneapolis (\$38.5 million), Atlanta (\$3.4 million), and Birmingham (\$3.3 million), the renovation and expansion project in Cleveland (\$37.7 million), and, in New York, floor-by-floor modernization (\$5.6 million) and cafeteria modernization (\$2.9 million). San Francisco has

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1993-95

Thousands of dollars, except as noted

Class of outlay	1993 actual	1994 estimate	1995 budget	Percentage change	
				1993 to 1994	1994 to 1995
Data processing and data communications equipment ¹	143,739	133,301	121,866	-7.3	-8.6
Buildings	53,825	64,795	123,463	20.4	90.5
Furniture, furnishings, and fixtures	20,840	15,240	16,338	-26.9	7.2
Other equipment ²	36,444	49,129	73,852	34.8	50.3
Land and other real estate	1,016	6,123	15,100	502.7	146.6
Building machinery and equipment	13,435	8,050	14,643	-40.1	81.9
Leasehold improvements	5,010	539	1,054	-89.2	95.5
Software ³	4,441	12,249	12,206	175.8	-4
Total	278,750	289,426	378,522	3.8	30.8

1. Includes FRAS capital of \$78,883 thousand in 1993, \$49,983 thousand in 1994, and \$40,366 thousand in 1995.

2. Includes FRAS capital of \$56 thousand in 1994 and \$17 thousand in 1995.

3. Includes FRAS capital of \$2,475 thousand in 1993, \$9,103 thousand in 1994, and \$3,695 thousand in 1995.

budgeted for several remodeling and renovation projects, mostly for its northern Branches (\$7.5 million). Almost all Districts have budgeted for renovation projects in cash-processing areas, mainly to prepare for the installation of ISS-3000 cash processors and materials-handling systems (\$7.9 million).

Outlays for data processing and data communications are budgeted at \$121.9 million, approximately 32 percent of total capital outlays. Included in the budget is check-imaging equipment for several Banks (\$17.1 million), to support image capture, archival, and retrieval functions for the processing of government checks. Several Banks have included this equipment in their capital budgets because the Treasury has requested that all Reserve Banks be fully capable of capturing and archiving images of all government checks by mid-1996, to coincide with the Treasury's capability to access these images through a new image-retrieval system. Dallas has included medium-speed image-processing systems for its Branches (\$0.8 million). In addition, the Reserve Banks have budgeted to replace check reader-sorters and related check equipment (\$17.4 million), to increase productivity and to position themselves for commercial check image processing.

Other major data processing and data communications outlays in the 1995 Reserve Bank budget include \$18.9 million for input devices—mainly PC workstations—in all districts (\$18.5 million) and FRAS (\$0.3 million). CPU equipment is budgeted at \$12.2 million, mainly for FRAS (\$10.2 million). The CPU equipment at FRAS is required to support the movement of the remaining Districts to consolidation sites and into a standardized or communal District-unique environment; the remaining CPU equipment is needed for check opera-

tions in four Districts. FRAS has also budgeted \$16.7 million for network operations equipment to complete the Fednet communications system. Storage devices account for \$15.8 million. FRAS has requested \$9.1 million for DASD and tape equipment, and New York has budgeted \$3.3 million for DASD to meet additional capacity requirements. The remainder of the outlays for data processing and data communications include \$4.4 million for LAN equipment, \$3.1 million for telephone equipment, \$2.3 million for printers, and \$1.1 million for video-conferencing equipment.

Furniture and other equipment purchases are budgeted at \$90.2 million, about 24 percent of total capital outlays. The planned installation of ISS-3000 cash processors and associated equipment account for approximately 60 percent of these outlays (\$54.4 million). The Banks plan to spend another \$7.9 million on other cash-related equipment and \$12.3 million to replace furniture and workstations.

Land and other real estate purchases are budgeted at \$15.1 million; \$14.7 million is related primarily to the proposed building projects in Atlanta and Birmingham.

Building machinery and equipment outlays are budgeted at \$14.6 million. Included are upgrades in several Districts, including an elevator upgrade in Boston (\$2.0 million), replacement of the security, life safety, and HVAC computer in Richmond (\$2.0 million), and replacement of central plant equipment in Kansas City (\$1.1 million).

Software purchases are budgeted at \$12.2 million in 1995. Check-image software accounts for almost one-third of this amount (\$3.4 million). FRAS has budgeted \$3.7 million for software necessary to operate the four CPUs that will be upgraded in 1995, and Atlanta

has budgeted \$1.0 million in support of the Fedline system.

Trends in Expenses and Employment

Over the ten years ending with the 1995 budget, operating expenses of the Reserve Banks have increased an average of 5.3 percent per year (chart 3.1). Over the past five years, the increase has averaged 5.9 percent a year. Increases in expenses were higher after 1990 as a result of expanded bank supervision needs and the transition to a consolidated data processing environment.

The number of employees at the Reserve Banks, excluding FRAS staff, has increased from 22,984 in 1985 to 23,240 in 1995, an increase of 256 ANP (chart 3.2). Since 1985, staffing has increased in supervision and regulation owing to the Federal Deposit Insurance Corporation Improvement Act of 1991 (1,249 ANP), in the currency service owing to volume growth (90 ANP), and in public programs intended to enhance communications with the public (81 ANP). Partially offsetting these increases

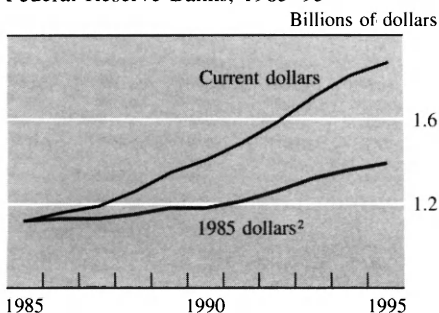
have been decreases in the commercial check service (327 ANP), the overhead service (250 ANP), securities/noncash operations (209 ANP), the ACH and funds transfer services (194 ANP), fiscal agency operations (56), and the monetary policy administration service (69 ANP). The decreases have been due largely to consolidation of operations and operational efficiencies throughout the System.

Volume and Unit Costs

The volume of measured services as a whole in 1995 is expected to increase 2.0 percent over 1994 volume, and the unit cost is expected to decline 1.3 percent (table 3.13). Since 1990, volume has increased at an average annual rate of 1.2 percent and unit cost at a rate of 2.2 percent. The decrease in unit cost expected for 1995 reflects a net decrease in the payments area. For commercial check services, the largest component of the overall index, the unit cost is expected to decrease 3.4 percent, and for cash services, the second largest component, to increase 6.3 percent.

Chart 3.1

Operating Expenses of the Federal Reserve Banks, 1985-95¹

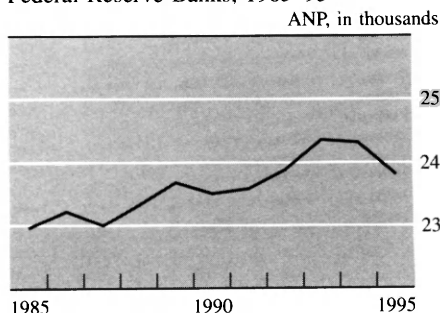


1. Excludes expenses for special projects. For 1994, estimate; for 1995, budget.

2. Calculated with the GDP price deflator.

Chart 3.2

Employment at the Federal Reserve Banks, 1985-95¹



1. Includes staff for special projects and FRAS. For 1994, estimate; for 1995, 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 1994 to 1995

Service	Volume	Unit cost
Payments	2.0	-5.2
Commercial check	-.1	-3.4
Automated clearinghouse	13.3	-14.3
Funds transfer	2.8	-11.4
Other checks	-.1	8.0
Cash ¹	3.2	6.3
Fiscal	-.2	8.8
Securities and noncash .....	.0	1.8
All measured services	2.0	-1.3

1. Includes currency and coin services.

experience, and the switch to managed care. Richmond anticipates greater-than-budgeted recoveries from FRAS for host-site services provided. At Philadelphia, the underrun was due mainly to staff reductions resulting from savings bond regionalization, check volume losses resulting from same-day settlement, and the Bank's early retirement program. Cleveland's underrun resulted from delays in equipment acquisition and favorable health care experience. ■

1994 Budget Performance

The 1994 Reserve Bank operations budgets approved in December 1993 totaled \$1,808.2 million, an expected increase of \$96.7 million, or 5.6 percent, over actual 1993 expenses. The Reserve Banks now estimate that 1994 expenses were \$1,805.2 million, \$3.0 million, or 0.2 percent, under the approved budget. At this estimated level of spending, the increase over actual 1993 spending on operations was 5.5 percent.

Six Banks expect to be within 1.0 percent of their approved 1994 budgets. Two Banks expect overruns of more than 1.0 percent—St. Louis (3.1 percent) and Minneapolis (1.2 percent); in both Districts the overruns were due mainly to higher-than-anticipated expenses for automation consolidation and Fednet. Four Banks expect underruns of more than 1.0 percent—San Francisco (2.5 percent), Richmond (1.5 percent), Philadelphia (1.4 percent), and Cleveland (1.1 percent). San Francisco expects benefits costs to have been lower as a result of a capping of the Bank's contribution to retiree medical benefits, lower claims

Part II

Special Analysis

Chapter 4

Supervision of Foreign Bank Operations in the United States

In response to concerns that the framework for supervising the U.S. operations of foreign banks needed to be strengthened, the Foreign Bank Supervision Enhancement Act of 1991 (FBSEA) gave the Federal Reserve significant new authority with respect to foreign banks in the United States. The legislation established, among other things, uniform federal standards for the entry and expansion of foreign banks in the United States; it also clarified the role of the Board of Governors in examining the U.S. operations of foreign banks.

Before the passage of FBSEA in December 1991, the Federal Reserve had residual authority to examine the U.S. branches and agencies of foreign banks but was required, by the International Banking Act of 1978, to use, to the extent possible, the examination reports of other state and federal banking agencies. FBSEA amended this provision of the International Banking Act to explicitly authorize the Federal Reserve to conduct and coordinate examinations of foreign banks' U.S. branches and agencies and their representative offices. FBSEA also requires that U.S. branches and agencies be examined on-site at least once every twelve months.

Extent of U.S. Operations

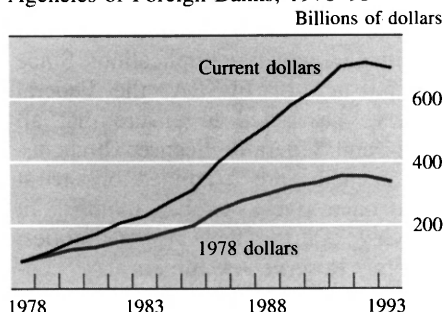
Foreign banks have a significant presence in the U.S. banking market. At the end of 1993, 295 foreign banks were operating in the United States, with aggregate assets of \$855 billion in their

U.S. branches, agencies, and subsidiary commercial banks. The vast majority of these operations are conducted in U.S. branches and agencies, which together had \$696 billion in total assets, or 17 percent of total banking assets in this country, at the end of 1993. The growth in foreign banks' U.S. branches and agencies since 1978 is shown in chart 4.1, and the growth of their importance among U.S. banking institutions as a source of credit for U.S. businesses over the same period is shown in chart 4.2. At the end of 1993, U.S. branches and agencies of foreign banks held 27 percent of all business loans booked in U.S. banking offices. The share increases five to six percentage points, to about 33 percent, if loans to U.S. businesses from offshore shell branches controlled by U.S. branches or agencies of foreign banks are taken into account.

In addition to their U.S. banking operations, some foreign banks also

Chart 4.1

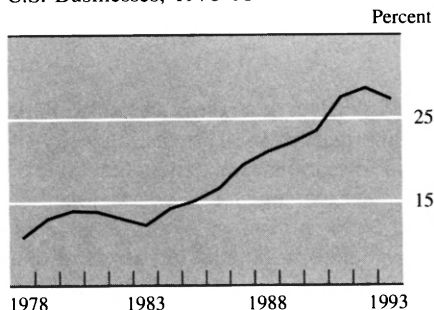
Total Assets of U.S. Branches and Agencies of Foreign Banks, 1978–93¹



1. End-of-year data; 1978 dollars calculated with GDP deflator.

Chart 4.2

Share of U.S. Branches and Agencies
of Foreign Banks in Lending to
U.S. Businesses, 1978–93¹



1. End-of-year data.

conduct substantial financial operations in the United States through nonbank U.S. financial companies, principally firms engaged in capital markets activities. For example, some foreign banks conduct a large part of their global swaps business through U.S. nonbank financial subsidiaries. Such nonbanking activities of foreign banks in the United States must be approved by the Federal Reserve, which also supervises the nonbank financial subsidiaries.

Growth of the Federal Reserve's Responsibilities

The Federal Reserve's increased authority to examine the U.S. branches and agencies of foreign banks has had significant budgetary implications. Since the passage of FBSEA, the Federal Reserve has acted to ensure that all state- and federally licensed branches and agencies are examined on-site at least once every twelve months. In carrying out the new responsibilities, Federal Reserve examiners are conducting more U.S. branch and agency examinations. In 1994 the Federal Reserve conducted 610 full-scope U.S.

branch and agency examinations, compared with about 100 in 1991.

Implementing these provisions of FBSEA has required a substantial increase in Federal Reserve examiner staff. Increased resources have also been devoted to examining nonbank financial subsidiaries of foreign banks. From 1991 to 1993, the number of international examiners in the Federal Reserve System increased from 106 to 289, and the international staff as a share of total Federal Reserve examiner staff rose from 10 percent to about 20 percent.

Coordination among State and Federal Agencies

Since passage of the International Banking Act of 1978, the Federal Reserve has cooperated with other state and federal banking supervisory agencies to avoid, whenever possible, duplicate examination of the U.S. offices of foreign banking organizations, some of which operate in the United States through numerous entities and across several jurisdictions. During the past year, these efforts have been enhanced through development by the state and federal banking supervisory agencies of a more formal framework for coordinating their supervisory responsibilities with respect to foreign banks, including their examination functions.

Under the new program, the supervisory agencies will communicate with each other to a greater extent about their examination plans, their examination results, and, where applicable, their proposed follow-up actions. To promote the effective targeting of resources, the agencies will also analyze the risks to a foreign bank's U.S. operations posed by the financial condition of the foreign bank as a whole. The state and federal agencies implementing the program will be equal partners in all aspects of the

program, and the Federal Reserve will act as the coordinating agency, where appropriate.

One of the principal objectives of the new program is to ensure that each U.S. banking office of a foreign banking organization is subject to only one safety and soundness examination a year, unless the condition of that office warrants more frequent examination. The higher level of coordination will also minimize the imposition of multiple supervisory actions and follow-up reporting obligations on foreign banks by the several state and federal banking supervisory agencies. ■

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 1995 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 1995

In 1994 the Board approved a 1995 private sector adjustment factor for Reserve Bank priced services of \$94.7 million, a decrease of \$8.9 million, or 8.6 percent, from the PSAF of \$103.6 million targeted for 1994.

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, 1994 and 1995¹

Millions of dollars

Item	1994	1995
ASSETS		
<i>Short-term assets</i>		
Imputed reserve requirement on clearing balances	593.6	619.8
Investment in marketable securities	5,342.3	5,577.9
Receivables ²	64.3	62.8
Materials and supplies ²	5.5	5.7
Suspense and difference ² .....	.0	.1
Prepaid expenses ²	16.1	16.1
Items in process of collection	3,198.9	2,592.5
Total short-term assets	9,220.7	8,874.9
<i>Long-term assets</i>		
Premises ^{2,3}	350.5	412.1
Furniture and equipment ²	183.1	113.4
Leasehold improvements and long-term prepayments ²	32.1	12.6
Capital leases .....	.6	3.8
Total long-term assets	566.3	541.9
Total assets	9,787.0	9,416.8
LIABILITIES		
<i>Short-term liabilities</i>		
Clearing balances and balances arising		
from early credit of uncollected items	5,935.9	6,197.7
Deferred-credit items	3,198.9	2,592.5
Short-term debt ⁴	85.9	84.7
Total short-term liabilities	9,220.7	8,874.9
<i>Long-term liabilities</i>		
Obligations under capital leases .....	.6	3.8
Long-term debt ⁴	174.1	161.6
Total long-term liabilities	174.7	165.4
Total liabilities	9,395.4	9,040.3
Equity ⁴	391.5	376.5
Total liabilities and equity	9,787.0	9,416.8

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 1994 and \$0.4 million for 1995.

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

1995 is estimated at \$9,416.8 million (table A.1). The value of assets assumed to be financed through debt and equity in 1995 is \$622.9 million, a decrease of \$28.6 million, or 4.4 percent, from 1994 (table A.2); the decrease is due primarily to lower priced asset levels at the Reserve Banks and FRAS.

Cost of Capital, Taxes, and Other Imputed Costs

For 1995, a pretax rate of return on equity of 12.1 percent, or \$45.6 million, is planned. Other required PSAF recoveries for 1995—imputed sales taxes, imputed FDIC insurance assessment, and Board expenses—total \$33.0 mil-

Table A.2

Derivation of the Private Sector Adjustment Factor (PSAF), 1994 and 1995

Millions of dollars, except as noted

Item	1994	1995
PSAF COMPONENTS		
<i>Assets to be financed</i> ¹		
Short-term	85.9	84.7
Long-term ²	565.5	538.2
Total	651.5	622.9
<i>Cost of capital (percent)</i> ³		
Short-term debt	4.3	3.5
Long-term debt	8.7	8.2
Pretax return on equity ⁴	12.7	12.1
Weighted average long-term cost of capital	11.5	10.9
<i>Capital structure (percent)</i>		
Short-term debt	15.6	15.4
Long-term debt	26.0	25.4
Equity	58.4	59.2
Tax rate (percent)	30.4	31.0
REQUIRED PSAF RECOVERIES		
<i>Capital costs</i> ⁵		
Short-term debt	3.7	3.0
Long-term debt	15.2	13.2
Equity	49.7	45.6
Total	68.6	61.7
<i>Other costs</i>		
Sales taxes	12.5	11.3
Assessment for federal deposit insurance	19.8	19.0
Expenses of Board of Governors	2.7	2.7
Total	35.0	33.0
Total PSAF recoveries		
Millions of dollars	103.6	94.7
As a percentage of capital	15.9	15.2
As a percentage of expenses	17.0	15.7

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 fifty 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 1989–93 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.

lion (table A.2). The \$8.9 million decrease in PSAF recoveries is attributable mainly to lower priced asset base levels and a lower cost of capital planned for 1995.

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 1995 the Board of Governors has approved research and development for two projects intended to provide long-range benefits to the Federal Reserve and the banking industry. Because the spending on these special projects is relatively high and short-term, the Federal Reserve accounts for them separately from its operating expenses.

Development of Currency Authentication Systems

In 1989, the Federal Reserve initiated a special project for development of currency authentication systems. The project has included research and development costs for the Optical Counterfeit Detection Systems (OCDS), an effort to improve counterfeit-detection capabilities that will enhance the currency service provided to financial institutions and the public. Other efforts expected to increase the Federal Reserve's ability to detect counterfeit currency include the development of magnetics-detection systems, development of a universal magnetic authentication detector (UMAD), and a universal currency authentication sensor (UCAS). The OCDS project was discontinued in 1993, and the major portions of the UCAS and UMAD projects were completed in 1994.

The introduction of a new currency design will require new research and development work on the UMAD and UCAS detectors, and changes in both sensor hardware and software will likely be required. Preliminary design work began in 1994, and changes should be implemented in late 1996 or early 1997.

The 1995 project budget is \$1.3 million. Including 1995 budgeted expenses, expenditures on this special project to date total \$18.6 million.

Automation Consolidation

In 1992, the Federal Reserve System began to incur expenses for the Automation Consolidation special project, an effort to consolidate all mainframe computer operations at three sites within the System—Richmond, Dallas, and New York. During 1992, work focused on establishing a project plan and on staffing and equipping the three data centers. In 1993 and 1994, the emphasis was on the conversion of District workloads and the transition of District EPS images to the production environment. In 1995, all districts except New York will be in the District-unique environment and central applications will be in place.

The 1995 budget includes \$37.8 million in support of these efforts. Including budgeted 1995 expenses, expenditures on this special project to date total \$194.8 million.

Currency Printing

The Bureau of Engraving and Printing produces currency; the Federal Reserve

Table A.3

Currency in Circulation, New Notes Issued, and Notes Destroyed, 1994 Estimate

Millions of pieces

Dollar denomination	Notes in circulation ¹	New notes issued ²	Notes destroyed
1	5,823	4,270	3,582
2	492	27	4
5	1,381	1,013	950
10	1,303	803	737
20	3,810	1,914	1,597
50	844	221	165
100	2,226	547	206
Total	15,879	8,795	7,241

1. As of October 1994.

2. Figures for new notes issued do not include additions to inventory at the Reserve Banks.

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 circulation and destroying it, be assumed by the Federal Reserve System (table A.4). To minimize the number of new

Table A.4

Costs to the Federal Reserve of New Currency, 1993–95

Millions of dollars, except as noted

Item	1993 actual	1994 estimated	1995 budget	Percentage change, 1994 to 1995
Printing ¹	346.2	357.7	358.9	.3
Shipping from Washington and Western facilities	7.4	8.2	8.5	3.7
Reimbursement to the Treasury for issuance and retirement	2.3	2.3	2.5	8.7
Other ² .....	.7	.7	1.2	71.4
Total cost of currency	356.6	368.9	371.1	.6

1. Based on 8.4 billion notes in 1993, 9.3 billion notes in 1994, and 9.7 billion notes in 1995.

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

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 packaging and transporting the currency. ■

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 92 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 \$16.0 billion for 1993 and are estimated to be \$20.5 billion for 1994. ■

Table B.1

Income of the Federal Reserve System,
1993 and 1994

Millions of dollars

Source	1993 actual	1994 estimate
Loans	5.6	11.5
U.S. government securities ...	16,890.7	19,247.1
Foreign currencies	1,249.2	894.5
Priced services	757.3	733.2
Other	11.4	22.7
Total	19,014.2	20,908.9

Table B.2

Distribution of the Income of the Federal Reserve Banks, 1993 and 1994

Millions of dollars

Item	1993 actual	1994 estimate
Current income ¹	18,914	20,909
LESS		
<i>Current expenses of Reserve Banks</i> ²		
Operating expenses	1,475	1,575
Costs of earnings credits	183	225
EQUALS		
Current net income	17,256	19,109
PLUS		
Net additions to, or deductions from (–), current net income ³	–201	2,398
LESS		
Cost of unreimbursed Treasury services ⁴	29	33
<i>Assessments by the Board</i>		
Board expenses	140	147
Cost of currency	356	368
<i>Other distributions</i>		
Dividends paid to member banks ⁵	195	212
Transfers to, or from (–), surplus ⁶	348	282
EQUALS		
Payment to U.S. Treasury	15,987	20,464

1. See table B.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions of \$131.4 million in 1993 and \$77.7 million in 1994 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 21 projects in various stages of completion, since 1979 has completed 123 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 51 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
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
Relationship of the operations of the Federal Reserve System to the federal budget	10/8/93
Accounting for derivatives	3/21/94
Trust assets	3/23/94
Foreign banking	3/31/94
Audit of the Federal Reserve Bank of Dallas	4/11/94
Losses to the Bank Insurance Fund	5/5/94
Bank chartering and changes in control	5/24/94
Bank mutual fund profitability	6/1/94
Credit availability	6/1/94
Overseas counterfeiting and money laundering	6/10/94
FDICIA provisions	6/24/94
OTC derivative sales practices	7/20/94
CFTC's exemptions	9/1/94
Equitable Escheatment Act of 1994	11/4/94

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

Completed GAO Reports Relating to the Federal Reserve System—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	6/1/92
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
Strengthening the Framework for Supervising International Banks	GGD-94-68	3/21/94
Insider Problems and Violations Indicate Broader Management Deficiencies	GGD-94-88	3/30/94
U.S. Credit Card Industry: Competitive Developments Need to be Closely Monitored	GGD-94-23	4/28/94
Better Guidance Is Needed for Real Estate Evaluations	GGD-94-144	5/24/94
Treasury Securities Auction	AIMD-94-165R	8/25/94
Divergent Loan Loss Methods Undermine Usefulness of Financial Reports	AIMD-95-8	10/31/94
Interstate Banking: Experiences in Three Western States	GGD-95-35	12/30/94

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 plans and conducts audits and investigations of the programs and operations of the Board and its delegated functions at the Federal Reserve Banks. 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 opera-

tions. 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 deficiencies and about the status of any corrective actions.

During 1994, the OIG reported on eight audits (table C.3) and conducted a number of follow-up reviews. In addition, the OIG closed five investigations and performed numerous legislative and regulatory reviews. ■

Table C.3

Completed OIG Audit Reports Relating to the Federal Reserve System, 1994

Report	Number	Month of issue
Audit of the Board's Oversight of Federal Reserve Bank Building Projects ...	A9205	2/94
Audit of HMDA Processing System: Project Management	A9203-A	2/94
Audit of HMDA Processing System: System Design	A9203-B	3/94
Audit of the Board's Financial Statements (year ending 12/31/93)	A9400	3/94
Audit of the FFIEC's Financial Statements (year ending 12/31/93)	A9401	3/94
Audit of the Division of Research and Statistics' Distributed Processing Network	A9306	8/94
Audit of the Board's Mainframe Computer Data Communications	A9303	8/94
Audit of the Board's Currency Program	A9210	9/94

Appendix D

*Expenses and Employment
at the Federal Reserve Banks*

Table D.1

Operating Expenses of the Federal Reserve Banks, by District, 1994 and 1995¹

Thousands of dollars, except as noted

District	1994 estimate	1995 budget	Change	
			Amount	Percent
Boston	99,263	103,610	4,346	4.4
New York	368,162	382,751	14,589	4.0
Philadelphia	98,705	100,029	1,324	1.3
Cleveland	100,626	106,849	6,223	6.2
Richmond	135,097	139,455	4,358	3.2
Atlanta	172,797	178,694	5,898	3.4
Chicago	198,137	206,423	8,286	4.2
St. Louis	85,040	86,949	1,909	2.2
Minneapolis	87,761	91,729	3,967	4.5
Kansas City	116,134	119,658	3,524	3.0
Dallas	115,909	119,688	3,780	3.3
San Francisco	191,845	198,542	6,698	3.5
Total, all Districts	1,769,477	1,834,378	64,901	3.7
Interdistrict Transportation System (ITS) expenses	35,708	34,940	-768	...
Total including ITS	1,805,185	1,869,317	64,132	3.6
<i>Special projects</i>				
Currency Authentication Systems	660	1,300	640	...
Automation Consolidation	61,528	37,788	-23,740	...
Total	62,188	39,088	-23,101	...
Total	1,867,373	1,908,405	41,032	2.2

1. Excludes capital outlays.

Table D.2

Employment at the Federal Reserve Banks, by District, 1994 and 1995

Average number of personnel, except as noted¹

District	1994 estimate	1995 budget	Change	
			Amount	Percent
Boston	1,370	1,277	-93	-6.8
New York	4,341	4,250	-91	-2.1
Philadelphia	1,376	1,287	-89	-6.5
Cleveland	1,427	1,443	16	1.1
Richmond	2,109	2,047	-62	-3.0
Atlanta	2,453	2,392	-61	-2.5
Chicago	2,566	2,415	-151	-5.9
St. Louis	1,180	1,155	-25	-2.1
Minneapolis	1,288	1,323	35	2.7
Kansas City	1,628	1,644	16	1.0
Dallas	1,585	1,580	-5	-.3
San Francisco	2,511	2,428	-84	-3.3
Total, all Districts	23,833	23,240	-594	-2.5
FRAS	489 ²	592	103	...
Total	24,323	23,832	-491	-2.0

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

2. Does not include Fednet staff, which are included in Chicago's 1994 estimate.

Table D.3

Expenses of the Federal Reserve Banks, by Operational Area, 1994 and 1995

Thousands of dollars, except as noted

Operational area	1994 estimate	1995 budget	Change	
			Amount	Percent
Monetary and economic policy	124,373	135,055	10,682	8.6
Services to the U.S. Treasury and other government agencies	212,276	221,099	8,823	4.2
Services to financial institutions and the public	1,108,638	1,118,635	9,997	.9
Supervision and regulation	359,896	394,529	34,632	9.6
Total	1,805,185	1,869,317	64,132	3.6
MEMO ¹				
Support	597,850	644,293	46,443	7.8
Overhead	513,545	508,303	-5,241	-1.0

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 Salaries of Officers and Employees, by District, 1994 and 1995

Thousands of dollars, except as noted

District	1994 estimate	1995 budget	Change	
			Amount	Percent
Boston	53,793	53,831	38	.1
New York	189,177	198,984	9,807	5.2
Philadelphia	47,620	46,561	-1,059	-2.2
Cleveland	47,446	49,463	2,017	4.3
Richmond	69,132	70,201	1,069	1.5
Atlanta	79,625	81,627	2,002	2.5
Chicago	96,951	95,314	-1,637	-1.7
St. Louis	38,104	38,962	858	2.3
Minneapolis	43,544	46,611	3,067	7.0
Kansas City	55,750	57,687	1,937	3.5
Dallas	54,794	56,952	2,158	3.9
San Francisco	102,884	105,935	3,051	3.0
Total	878,821	902,129	23,308	2.7

Table D.5

Factors in the 1994-to-1995 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	5.1	.1	.9	-5.4	-.5	-.2	.0	.1
New York	6.8	.1	1.1	-1.8	-1.1	.0	.0	5.2
Philadelphia	3.9	.0	.3	-5.4	-.4	-.6	.0	-2.2
Cleveland	3.9	.0	.3	2.4	-2.1	-.3	.0	4.3
Richmond	4.1	.0	1.6	-2.6	-1.2	-.2	-.1	1.5
Atlanta	3.6	.1	.7	-1.1	-.4	-.5	.0	2.5
Chicago	3.2	.0	1.2	-4.5	-1.0	-.4	-.2	-1.7
St. Louis	4.1	.1	.8	-2.0	-.5	-.1	-.1	2.3
Minneapolis	4.0	.0	.6	3.4	.0	-.5	-.4	7.0
Kansas City	4.5	.1	1.1	-.7	-1.2	-.2	.0	3.5
Dallas	3.5	.1	.3	-.2	.0	.1	.1	3.9
San Francisco	4.3	.0	.5	-1.8	.2	-.2	.0	3.0
Total	4.6	.1	.9	-1.9	-.5	-.2	.0	2.7

1. Turnover is the replacement of a departing employee with one having a lower pay grade.

Lag is the time during which a position remains vacant.

Table D.6

Capital Outlays of the Federal Reserve Banks, by District, 1994 and 1995

Thousands of dollars, except as noted

District	1994 estimate	1995 budget	Change	
			Amount	Percent
Boston	15,329	8,535	-6,793	-44.3
New York	34,302	44,824	10,522	30.7
Philadelphia	13,397	10,452	-2,944	-22.0
Cleveland	24,674	54,705	30,031	121.7
Richmond	15,695	25,173	9,478	60.4
Atlanta	25,559	45,112	19,553	76.5
Chicago	34,393	28,429	-5,964	-17.3
St. Louis	3,681	9,679	5,998	163.0
Minneapolis	16,654	41,982	25,328	152.1
Kansas City	10,032	13,638	3,606	35.9
Dallas	15,326	18,744	3,417	22.3
San Francisco	21,244	33,172	11,928	56.1
Total, all Districts	230,285	334,444	104,159	45.2
FRAS	59,141	44,077	-15,064	-25.5
Total, System	289,426	378,521	89,095	30.8

*Table D.7*Budget Performance of the Federal Reserve Banks,
Operating Expenses, by District, 1994¹

Thousands of dollars, except as noted

District	1994 budget	1994 estimate	Change	
			Amount	Percent
Boston	101,724	101,905	181	.2
New York	372,192	373,747	1,555	.4
Philadelphia	101,926	100,518	-1,408	-1.4
Cleveland	105,090	103,896	-1,195	-1.1
Richmond	141,035	138,867	-2,168	-1.5
Atlanta	177,655	178,818	1,164	.7
Chicago	203,331	202,719	-612	-.3
St. Louis	84,036	86,666	2,630	3.1
Minneapolis	87,786	88,859	1,073	1.2
Kansas City	118,431	118,317	-114	-.1
Dallas	116,699	117,535	836	.7
San Francisco	198,320	193,340	-4,980	-2.5
Total, all Districts	1,808,224	1,805,185	-3,039	-.2
<i>Special projects</i>				
Currency Authentication Systems	1,328	660	-668	...
Automation Consolidation	66,941	61,504	-5,437	...
Total	68,269	62,164	-6,105	...
Total	1,876,493	1,867,349	-9,144	-.5

1. Excludes capital outlays.

Table D.8

Budget Performance of the Federal Reserve Banks,
Employment, by District, 1994Average number of personnel, except as noted¹

District	1994 budget	1994 estimate	Change	
			Amount	Percent
Boston	1,370	1,370	0	.0
New York	4,306	4,341	35	.8
Philadelphia	1,404	1,376	-28	-2.0
Cleveland	1,440	1,427	-13	-.9
Richmond	2,110	2,109	-2	*
Atlanta	2,460	2,453	-7	-.3
Chicago	2,615	2,566	-48	-1.9
St. Louis	1,187	1,180	-7	-.6
Minneapolis	1,279	1,288	10	.8
Kansas City	1,640	1,628	-12	-.7
Dallas	1,582	1,585	2	.1
San Francisco	2,529	2,511	-18	-.7
Total, all Districts	23,922	23,834	-88	-.4
<i>Special projects</i>				
Currency Authentication Systems	0	0	0	...
Automation Consolidation ²	441	489	48	...
Total	441	489	48	...
Total	24,363	24,323	-40	.2

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.9

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1990-95¹

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
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	114,617	193,621	1,076,914	326,334	1,711,486
1994 estimate	124,373	212,276	1,108,638	359,896	1,805,185
1995 budget	135,055	221,099	1,118,635	394,529	1,869,317
MEMO					
Average annual change (percent)	6.4	7.1	3.6	13.2	5.9

1. Excludes special projects.

*Table D.10***Employment at the Federal Reserve Banks, by Operational Area, 1990–95**Average number of personnel, except as noted ¹

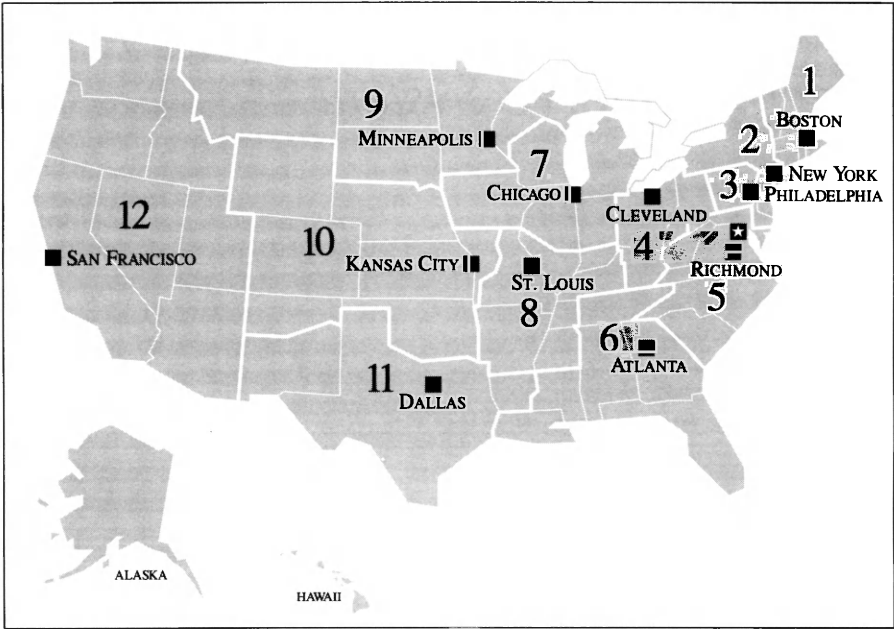
Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Support ²	Overhead ²	Total
1990	773	1,815	9,215	2,217	4,533	4,940	23,492
1991	784	1,872	9,045	2,343	4,629	4,924	23,594
1992	776	1,832	8,878	2,587	4,711	4,998	23,782
1993	751	1,780	8,610	2,910	4,762	5,183	23,996
1994 estimate	746	1,771	8,349	3,080	4,668	5,219	23,834
1995 budget	747	1,725	8,065	3,161	4,468	5,074	23,240
MEMO							
Average annual change (percent)	–.7	–1.0	–2.6	7.4	–.3	.4	–.2

1. Excludes special projects and FRAS. 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

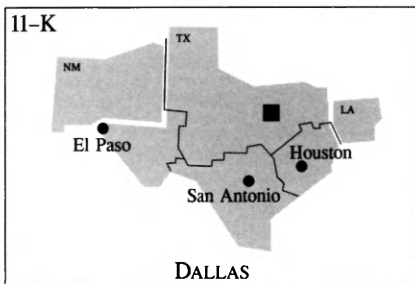
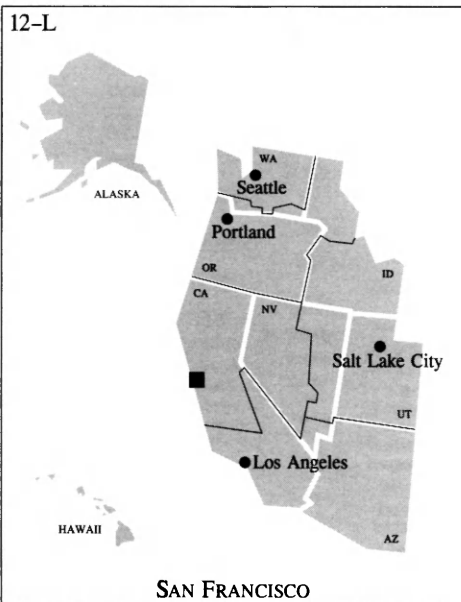
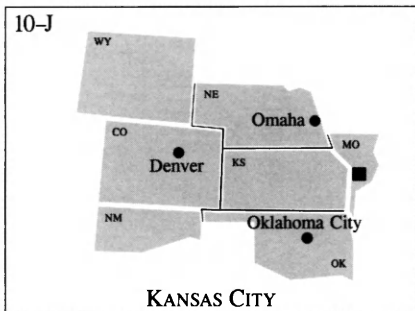
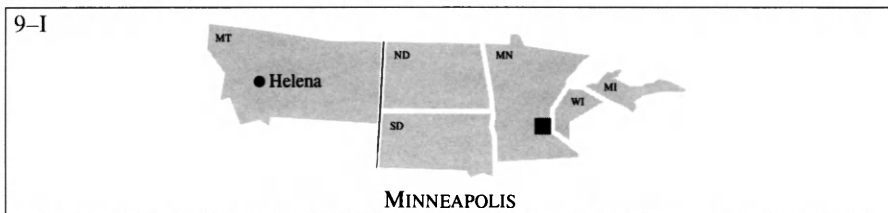
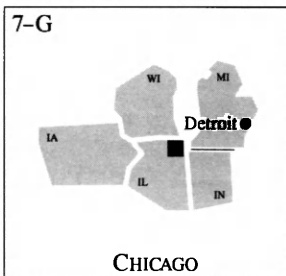
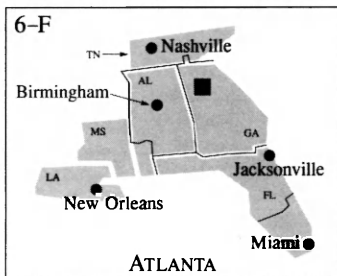
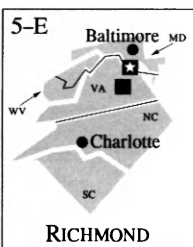
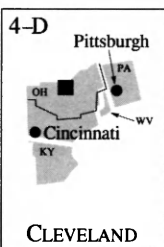
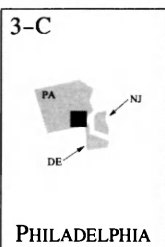
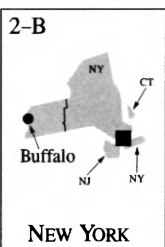
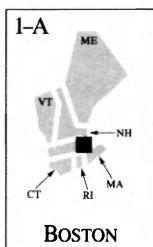
NOTE

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 1995.



FRB I/1-2000-0295-C