

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS

2023 Federal Reserve Bank Budgets

ACTION

On December 15, 2022, the Board approved the 2023 Reserve Bank operating budgets totaling \$5,646.2 million, an increase of \$308.2 million, or 5.8 percent, from the 2022 forecasted expenses.¹ The chair of the Committee on Federal Reserve Bank Affairs designated two components of the operating expense budgets for conditional approval:

- a) Expenses associated with investments in Treasury Retail Investment Manager (TRIM) (\$24.2 million) and the Post Payment Modernization (PPM) (\$17.6 million) require additional review and approval by the director of the Division of Reserve Bank Operations and Payment Systems (RBOPS).²
- b) Additionally, the Translation Hub, Enterprise Resource Planning (ERP), and the data center modernization initiative require additional review and approval based on criteria to be developed by RBOPS staff.^{3,4}

The Board also approved the Reserve Banks, FRIT, and the OEB single and multiyear capital budgets in three categories:

- a) significant capital expenditures – multiyear approval for significant capital expenditures (typically expenditures exceeding \$1 million) totaling \$1,781.7 million for 2023 and the remaining term of these projects.
- b) other capital expenditures – single-year, less significant capital expenditures (less than \$1 million per project) totaling \$99.3 million for 2023.

¹ These expenses include those budgeted by Federal Reserve Information Technology and the Office of Employee Benefits that are chargeable to the Reserve Banks. Expenses exclude assessments for the Board of Governors operating expenses, pension costs, the cost of currency, and the Consumer Financial Protection Bureau.

² TRIM is a multiyear development program to introduce new business functionality and infrastructure for the retail Treasury program. PPM is the technology modernization of existing check post payment systems for aftermath check processing for federal program agencies.

³ In lieu of expenses in the 2023 budget, staff will provide approval criteria to Reserve Banks based on project milestone expectations.

⁴ The Translation Hub is a software service that will ingest real time payments data and transmit that information to the Collections Information Repository, a web-based tool that gives federal agencies information on deposits and collections. The data center modernization initiative includes Co-location (CoLo) buildout and cloud migration investments.

- c) conditional approval – the chair of the Committee on Federal Reserve Bank Affairs designated \$218.3 million in 2023 and \$556.8 million for 2024 and the remaining term of these projects, requiring additional review and approval by the director of RBOPS.

DISCUSSION

The Reserve Banks prepared annual budgets for 2023 through a process designed to demonstrate the System’s accountability, governed by the Conference of Presidents (COP), for careful stewardship of public funds. The budgets are developed to align with each Reserve Bank’s and the System’s strategic priorities, including

- contributing to the formulation of monetary policy and enhancing monetary policy implementation to become more effective, flexible, and resilient
- promoting financial stability through effective monitoring, analysis, and policy development
- promoting safety and soundness of financial institutions through effective supervision
- leading efforts to enhance the security, resiliency, functionality, and efficiency of services provided to financial institutions and the public

The budget process in which the COP plays a central role has now been in place for six years. While all concerned agree that this process represents an improvement over the previous approach, we continue working with Reserve Bank leadership to refine the budget process with the most important focal points being alignment with long-term strategy and stewardship of public funds.

TOTAL EXPENSE SUMMARY

Reserve Bank Expenses							
(dollars in millions)							
	2022 Budget	2022 Forecast	22F to 22B		2023 Budget	23B to 22F	
			Amount	Percent		Amount	Percent
Central Bank Services	\$4,030.6	\$3,973.2	-\$57.4	-1.4%	\$4,185.0	\$211.9	5.3%
Monetary Policy	626.3	621.1	-5.2	-0.8%	657.2	36.1	5.8%
Open Market	276.4	272.1	-4.3	-1.5%	286.0	13.8	5.1%
Public Programs	271.3	259.8	-11.5	-4.2%	282.1	22.3	8.6%
Supervision	1,670.7	1,639.7	-31.0	-1.9%	1,722.1	82.4	5.0%
Cash	825.2	818.1	-7.1	-0.9%	859.1	41.0	5.0%
All Other Central Bank Services ¹	360.8	362.4	1.6	0.4%	378.6	16.2	4.5%
Fee-Based Services²	675.6	656.8	-18.8	-2.8%	739.9	83.1	12.7%
Treasury Services	728.4	680.9	-47.5	-6.5%	721.3	40.3	5.9%
System IT Residual ³		27.1					
Total Expense	\$5,434.6	\$5,338.0	-\$96.6	-1.8%	\$5,646.2	\$308.2	5.8%

¹ Includes Reserve Accounts and Risk Admin, Services to Int’l Organizations, Services to Other Central Banks, and Loans to Depository Institutions.

² Fee-based services are all expenses associated with the Priced Services, including the check, FedACH, Fedwire Funds and National Settlement, Fedwire Securities services, and FedNow services.

³ System IT residual represents the difference in actual expenses incurred and budgeted expenses for National and Local IT services, and are held in an unallocated account until year-end.

2023 Operating Expenses, Net of Revenue and Reimbursements

	Change in Net Expenses			
	(dollars in millions)			
	2022 Budget	2022 Forecast	2023 Budget	Percent Change 23B - 22F
Total Expense	\$5,434.6	\$5,338.0	\$5,646.2	5.8%
Less:				
Priced Services Revenue	\$477.2	470.1	495.8	5.5%
Reimbursable Claims	829.7	837.6	787.9	-5.9%
Net Expenses	\$4,127.7	\$4,030.4	\$4,362.5	8.2%

The 2023 operating budgets of the Reserve Banks, inclusive of Treasury services, total \$5,646.2 million, which is \$308.2 million, or 5.8 percent, higher than the 2022 forecast. About a quarter of Reserve Bank expenses in the 2023 budget are offset by either priced services revenue (8.8 percent) or reimbursable claims for services provided to the Treasury and fiscal principals (14.0 percent).⁵ Budgeted 2023 operating expenses, net of revenue and reimbursements, are expected to increase \$332.2 million, or 8.2 percent, from 2022 forecasted expenses.⁶ Budgeted 2023 priced services revenue is 5.5 percent higher than the 2022 forecasted level, reflecting increased prices across most services and expanded product offerings related to Fedwire Securities. Reimbursable claims are expected to decrease 5.9 percent in 2023 largely because of the Treasury’s decision to offer the transfer and settlement of marketable Treasury bills, notes, and bonds through the Fedwire Securities Service, which will enable Reserve Banks to collect fees from customers and eliminate the need for remittance to and reimbursement from the Treasury. This change is effective January 2023 and is reflected in lower reimbursable claims and higher revenue in the 2023 budget.

⁵ The Federal Reserve provides services to the U.S. government pursuant to the Federal Reserve Act, which stipulates that, when required by the Secretary of the Treasury, Reserve Banks will act as fiscal agents and depositories of the United States. Direct and indirect expenses associated with the services provided to the Treasury are reimbursable. Reimbursable claims include the expenses of fiscal agency and depository services provided to the U.S. Treasury, other government agencies, and other fiscal principals. Reimbursable claims are slightly higher than Treasury service expenses shown in the “Reserve Bank Expenses and Staffing” table because the reimbursable claims also include expenses associated with the government’s use of the Reserve Banks’ check, ACH, Fedwire Funds, and Fedwire Securities services; these expenses are included in the “Change in Net Expenses” table.

⁶ Reimbursable claims exclude annual assessments for the supervision of large financial companies pursuant to Regulation TT, which are not recognized as revenue or used to fund System expenses. A final rule was approved in November 2020 to modify the supervision and regulation assessment of fees. This rule adjusted the amount charged to assessed companies with total consolidated assets between \$100 billion and \$250 billion to reflect Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) related changes in supervisory and regulatory responsibilities. The Board issued a final rule implementing the requirements of section 401 of EGRRCPA in December 2020 with the implementation of these modifications beginning with the 2021 assessment. The Board estimates that the 2022 assessment basis will be approximately \$752.2 million, 9.6 percent greater than the 2021 assessment basis. This increase is subject to change as actual 2022 expenses are realized.

2022 Budget Performance

The total 2022 operating expense forecast for the Reserve Banks is \$5,338.0 million, which is \$96.6 million, or 1.8 percent, less than the approved 2022 budget of \$5,434.6 million.⁷ Almost half of the underrun is in Treasury Services and is primarily due to updated assumptions for staffing across several programs in the Treasury portfolio including forecasting and financing modernizations, and Pay.gov. Also contributing to the underrun in Treasury are updated decisions in the 2022 forecast following the final authorization from Fiscal Service and the decision to discontinue the Transforming Tax Collection program (T2C).⁸ Additionally, higher-than-budgeted turnover and extended lags in filling open positions in Supervision are driving almost a third of the overall System underrun. The forecasted 2022 capital spending for the Reserve Banks, Federal Reserve Information Technology (FRIT), and the Office of Employee Benefits (OEB) is less than the 2022 budget by \$10.4 million, or 1.7 percent. This decrease is predominantly driven by planned delays to projects as a result of environmental factors, such as supply chain issues affecting the availability of materials and equipment. This underrun is largely offset by costs associated with the new data center, which was not originally included in the 2022 budget.

2023 Budgeted Operating Expenses

The 2023 operating budgets of the Reserve Banks, including services to the Treasury, total \$5,646.2 million, \$308.2 million, or 5.8 percent, higher than the 2022 forecast. Budgeted expenses for services to the Treasury total \$721.3 million, an increase of \$40.3 million, or 5.9 percent, from the 2022 forecast. Treasury growth is primarily attributable to infrastructure and support costs for the migration of applications to the cloud and data center as well as other technology initiatives. Investments in fee-based services align with the Federal Reserve System's commitment to modernize the nation's payment system and establish a safe and efficient foundation for the future (FedNowSM Service) and 2023 spend is specifically related to IT infrastructure and cloud services. Supervision continues to focus on areas of risk and allocating resources to the highest priorities. Cash investments are to retain resources across Reserve Banks because of recent labor shortages. Additional resources are needed to support the production and

⁷ The forecasted full-time equivalent (FTE) for December 31, 2022 is 20,605. As described in the 2022 Reserve Bank Budget memo, the 2022 budgeted FTE of 21,300 was an approximation due to the transition to the new ERP tool.

⁸ On September 9, 2022, Fiscal Service notified the Federal Reserve Bank of Cleveland of their decision to discontinue the T2C program.

development phase of the next-generation currency-processing program (NextGen).⁹ Growth in Monetary Policy expense reflects increased resources dedicated to researching inflation, and enhancing existing and developing new inflation indicators.

The chair of the Committee on Federal Reserve Bank Affairs designated for conditional approval the portion of the 2023 operating expense budgets (\$41.8 million) associated with investments for Treasury Retail Investment Manager (TRIM) and Post Payment Modernization (PPM).¹⁰ Additionally, the chair designated future commitments related to the Translation Hub, Enterprise Resource Planning (ERP), and the data center modernization initiative for conditional approval based on criteria to be developed by Board staff.^{11,12} Investments with this designation require additional review and approval by the director of the Division of Reserve Bank Operations and Payment Systems.

2023 Personnel Expenses and Staffing

Reserve Bank officer and staff personnel expenses for 2023 total \$4,195.4 million, an increase of \$229.4 million, or 5.8 percent, from 2022 forecasted expenses. The increase reflects the expenses associated with additional staff, salary administration (that is, merit increases, equity adjustments, and promotions), variable pay, and retirement and other benefit costs.

Total 2023 budgeted employment for the Reserve Banks, FRIT, and OEB is 20,763, an increase of 157, or 0.8 percent, from 2022 forecasted staff levels. Primary growth drivers are increased National IT resources to support cloud migration, critical operations, access management and integration services. Increases in Support and Overhead (S&OH) are attributed to resources in Corporate Administration supporting a centralized

Significant Staffing (FTE) Changes 2023 Budget to 2022 Forecast	
2022 Forecast	20,605
Information Technology	83
Support & Overhead (SOH)	41
<i>Corporate Admin</i>	23
<i>Facilities</i>	13
<i>Law Enforcement</i>	13
<i>All Other SOH</i>	(8)
All Other	42
Supervision	30
Treasury	(38)
2023 Budget	20,763

⁹ FedCash (formerly Cash Product Office) is transitioning the existing fleet of high-speed currency processing machines and the sensor suite from the Banknote Processing System platform to the future next-generation (NextGen) processing infrastructure.

¹⁰ TRIM is a multiyear development program to introduce new business functionality and infrastructure for the retail Treasury program. PPM is the technology modernization of existing check post payment systems for aftermath check processing for federal program agencies.

¹¹ In lieu of expenses in the 2023 budget, staff will provide criteria to Reserve Banks based on project milestone expectations.

¹² The Translation Hub is a software service that will ingest real time payments data and transmit that information to the Collections Information Repository, a web-based tool that gives federal agencies information on deposits and collections. The data center modernization initiative includes Co-location (CoLo) buildout and cloud migration investments.

resilience function for the System. Also contributing to the increase in S&OH is the filling of open Facilities and Law Enforcement positions for which hiring had been delayed in 2022. Similarly, Supervision growth in 2023 is due to delayed hiring of open positions from 2022. Overall growth is offset by a reduction of resources associated with T2C.

2023 Capital Budgets

The 2023 capital budget submitted by the Reserve Banks, FRIT, and OEB totals \$888.2 million. The 2023 capital budget has increased \$277.1 million, or 45.3 percent, from the 2022 forecasted level of \$611.1 million, largely reflecting ongoing multiyear

2023 Capital Budget
(dollars in millions)

	2023 Capital	2024 and Beyond Capital	Total
Capital Expenditures Designated for Conditional Approval¹	\$218.3	\$556.8	\$775.0
Projects previously designated	117.3	463.1	580.3
New conditionally approved projects	101.0	93.7	194.7
Significant Capital Expenditures	570.7	1,211.0	1,781.7
Other Capital Expenditures	99.3		99.3
Art	0.2		0.2
Building	16.0		16.0
Furniture and Equipment	59.5		59.5
Land and Land Improvements	0.7		0.7
Leasehold Improvements	0.0		0.0
Software	22.9		22.9
Total Capital Budget	\$888.2	\$1,767.8	\$2,656.0

¹ Previously designated projects may include amounts that have already been approved by the Director of RBOPS that are not reflected on this chart.

building and IT strategic initiatives. Initiatives in the 2023 capital budget support the development and deployment phase of NextGen, target major workspace renovations, address aging building infrastructure in several Reserve Banks, continue data center modernization, and improve IT infrastructure. The remainder of the budgets was approved in two categories: (1) approval for significant capital expenditures for 2023 and the remaining term of these projects (\$2,556.7 million) and (2) single-year approval for all other capital expenditures by asset class (\$99.3 million).

Capital expenditures designated for conditional approval

The chair of the Committee on Federal Reserve Bank Affairs designated for conditional approval budgeted 2023 capital expenditures of \$218.3 million and total multiyear budgeted expenditures of \$775.0 million for 2023 and future years. The expenditures designated for conditional approval include a new facility, a cash vault, and renovations to the main lobby of a Reserve Bank. Technology projects include investments for the FedNow Service, data center modernization initiative and an initiative to modernize the Markets Group operations platform.

Significant capital expenditures

Significant capital expenditures (typically expenditures exceeding \$1 million) that have not been designated for conditional approval include total multiyear budgeted expenditures of \$1,781.7 million for 2023 and future years, of which the single-year 2023 budgeted expenditures are \$570.7 million. This category includes building investments to support security and resiliency, and infrastructure upgrades. IT projects include ongoing IT infrastructure investments, and support for cash, priced services, monetary policy, and supervision initiatives.

Other capital expenditures

The 2023 capital budgets include \$99.3 million for other capital expenditures that are individually less than \$1 million per project, such as building maintenance expenditures, scheduled software and equipment upgrades, and equipment and furniture replacements.

Statistical Supplement

Table A	Total Expenses of the Federal Reserve Banks, by District
Table B	Total Employment in the Federal Reserve Banks, by District
Table C	Budgeted Changes to Cash Compensation Programs of the Federal Reserve Banks, Officers and Staff, by District
Table D	Capital Outlays of the Federal Reserve Banks, by District

Notes: In the following tables, Reserve Bank expenses include those budgeted by FRIT and OEB that are chargeable to the Reserve Banks.

TABLE A: TOTAL EXPENSES OF THE FEDERAL RESERVE BANKS
by District, 2022 and 2023
(Dollars in Thousands)

District	2022 Budget	2022 Forecast	2023 Budget	Variance	
				22F to 22B	23B to 22F
Boston	389,194	378,190	407,726	-2.8%	7.8%
New York	1,245,171	1,222,975	1,291,334	-1.8%	5.6%
Philadelphia	231,935	229,747	232,817	-0.9%	1.3%
Cleveland	317,758	307,380	304,192	-3.3%	-1.0%
Richmond	369,331	360,869	394,217	-2.3%	9.2%
Atlanta	466,948	455,395	476,614	-2.5%	4.7%
Chicago	489,192	490,895	540,087	0.3%	10.0%
St. Louis	487,378	472,869	427,945	-3.0%	-9.5%
Minneapolis	223,360	221,070	257,128	-1.0%	16.3%
Kansas City	422,764	414,341	487,910	-2.0%	17.8%
Dallas	290,847	284,898	302,160	-2.0%	6.1%
San Francisco	500,755	499,401	524,072	-0.3%	4.9%
Total	5,434,632	5,338,030	5,646,203	-1.8%	5.8%

**TABLE B: TOTAL EMPLOYMENT OF THE FEDERAL RESERVE BANKS
by District, 2022 and 2023
Full Time Equivalent (FTE)**

District	2022 Forecast	2023 Budget	Variance	
			23B to 22F	
Boston	1,296	1,285	-11	-0.9%
New York	2,944	2,981	37	1.3%
Philadelphia	852	861	9	1.0%
Cleveland	1,148	1,104	-44	-3.8%
Richmond	1,554	1,548	-6	-0.4%
Atlanta	1,678	1,729	52	3.1%
Chicago	1,674	1,679	5	0.3%
St. Louis	1,425	1,447	22	1.6%
Minneapolis	1,061	1,071	11	1.0%
Kansas City	2,122	2,132	10	0.5%
Dallas	1,260	1,281	20	1.6%
San Francisco	1,863	1,864	1	0.1%
Subtotal	18,876	18,981	105	0.6%
FRIT	1,666	1,723	57	3.4%
OEB	64	58	-5	-8.6%
Total	20,605	20,763	157	0.8%

TABLE C: BUDGETED CHANGES TO CASH COMPENSATION PROGRAMS OF THE FEDERAL RESERVE BANKS
Officers and Staff by District, 2023
(Dollars in Thousands)

District	Total 12/31/22 Salary Liability (a)	Additions to Salary Base				Percentage Increase to Total 12/31/22 Salary Liability (b + c + d) / (a)	Change in Variable Pay (e)	Total	
		Merit (b)	Equity Adjustments (c)	Promotions and Reclasses (d)	Dollars (b + c + d + e)			Percentage Increase to Total 12/31/22 Salary Liability (b + c + d + e) / (a)	
Boston	191,335	8,610	1,435	1,913	6.25%	316	12,274	6.4%	
New York	561,017	25,246	8,415	1,403	6.25%	-1,343	33,721	6.0%	
Philadelphia	106,426	4,789	1,064	798	6.25%	-354	6,297	5.9%	
Cleveland	136,042	5,442	1,360	1,701	6.25%	-1,216	7,287	5.4%	
Richmond	197,101	7,884	2,464	1,971	6.25%	547	12,866	6.5%	
Atlanta	192,597	8,282	1,156	2,600	6.25%	-57	11,981	6.2%	
Chicago	230,316	9,213	3,022	2,160	6.25%	843	15,237	6.6%	
St. Louis	170,079	6,803	2,126	1,701	6.25%	-42	10,588	6.2%	
Minneapolis	118,073	4,959	767	1,653	6.25%	96	7,475	6.3%	
Kansas City	211,659	8,466	3,175	1,587	6.25%	98	13,327	6.3%	
Dallas	156,486	7,042	1,174	1,565	6.25%	-86	9,694	6.2%	
San Francisco	258,490	9,047	4,524	2,585	6.25%	517	16,672	6.4%	
FRIT	250,855	10,034	3,136	2,509	6.25%	1,259	16,937	6.8%	
OEB	12,042	512	120	120	6.25%	-97	656	5.4%	
Total	2,792,518	116,329	33,938	24,266	6.25%	479	175,012	6.3%	

The table above shows the cash compensation components that add to base salary (merit, equity, and promotion) and the 2023 change in variable pay expense compared to those forecasted for 2022.

December 31, 2022 Salary Liability: the annualized salary expense based on the salaries in effect on December 31.

Merit: the amount of 2023 budgeted salary expense that reflects salary increases for individuals based on performance.

Equity Adjustments: the amount of 2023 budgeted salary expense to bring individual salaries to the minimum of a salary range or to better align salaries based on internal or external compensation pressures.

Promotions: the amount of 2023 budgeted salary expense that reflects salary increases for individuals as a result of promotions resulting from a significant increase in job responsibilities.

Variable Pay: the change in 2023 budgeted incentive payments (payment for the achievement of pre-determined goals) and cash awards (awards in recognition of exceptional achievements) compared to the 2022 forecast.

TABLE D: CAPITAL OUTLAYS OF THE FEDERAL RESERVE BANKS
by District, 2022 and 2023
(Dollars in Thousands)

District	2022 Budget	2022 Forecast	2023 Budget	Variance	
				22F to 22B	23B to 22F
Boston	56,156	48,344	53,534	-13.9%	10.7%
New York	70,070	56,344	145,774	-19.6%	158.7%
Philadelphia	24,213	26,518	15,702	9.5%	-40.8%
Cleveland	41,441	40,104	29,680	-3.2%	-26.0%
Richmond	18,579	14,292	17,046	-23.1%	19.3%
Atlanta	57,152	39,450	80,888	-31.0%	105.0%
Chicago	54,224	59,987	43,785	10.6%	-27.0%
St. Louis	22,304	17,772	39,045	-20.3%	119.7%
Minneapolis	20,344	14,340	34,190	-29.5%	138.4%
Kansas City	51,031	45,978	68,991	-9.9%	50.1%
Dallas	31,604	42,367	45,320	34.1%	7.0%
San Francisco	91,843	80,675	134,458	-12.2%	66.7%
Subtotal	538,959	486,170	708,414	-9.8%	45.7%
FRIT	82,411	124,775	179,753	51.4%	44.1%
OEB	150	161	60	7.3%	-62.7%
Total	621,520	611,106	888,227	-1.7%	45.3%