




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DATE: December 22, 2014
TO: Board of Governors
FROM: Governor Jerome Powell 
Chairman, Committee on Board Affairs and Administrative Governor
SUBJECT: 2015 Final Board Operating and Capital Budgets

Action

The Committee on Board Affairs has reviewed staff's recommendation that the Board approve the operating and capital budgets for 2015 as summarized below and described more fully in the attached memorandum.

Operating and Capital Budget Requests

1. A \$629.3 million operating budget for 2015, which includes 2,673 authorized positions
2. A \$11.1 million single-year capital budget for 2015
3. An increase of \$15.6 million in the multi-year capital budget

Although the Board is under budget in total for the current year, staff also requests that the Board approve an over expenditure for 2014 in several budget accounts and divisions, as described in the final section of the attached memorandum.

Discussion

The 2015 budget requests are grounded in the principles established by the Board's 2012 – 2015 Strategic Framework. The requests provide resources necessary to maintain the Board's current operations, fund the compensation actions recently approved by the Board, and implement several new initiatives. Staff continues to review the resource requirements for the Division of Banking Supervision and Regulation and may request additional funding or positions in early 2015.

Attachment



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DATE: December 22, 2014
TO: Board of Governors
VIA: Governor Jerome Powell
FROM: Don Hammond, Chief Operating Officer
SUBJECT: 2015 Board Operating and Capital Budgets ¹

Action Requested

Staff ² requests that the Board approve the following:

1. A \$629.3 million operating budget for 2015, which includes 2,673 authorized positions
2. A \$11.1 million single-year capital budget for 2015
3. An increase of \$15.6 million in the multi-year capital budget

Although the Board is under budget in total, staff also requests that the Board approve an over expenditure for 2014 in several budget accounts and divisions, as described in the final section of this memorandum.

Summary

This is the third budget request since the Board approved the 2012-15 Strategic Framework (framework) in June 2012. The framework identified five overarching themes for the Board to address over the four-year planning horizon, along with recommended resource investments in terms of personnel and facilities. Recognizing the fiscal reality in which the Board operates, the framework also outlined a sixth theme that puts forward an overall cost control strategy and limits future budgetary growth.

The 2015 budget request is grounded in the principles established by the framework. As shown in Figure 1, the operating budget (including funding identified in the framework as well as new initiatives) represents a 7.7 percent increase over the 2014 operating plan. The single-year capital budget is driven primarily by technology infrastructure projects and equipment

Figure 1. Summary of 2015 Budget Components
Millions of dollars

Components	2014	2015	Variance	Percent
	Budget	Budget		
Operating Budget	584.2	629.3	45.1	7.7%
Single-Year Capital	5.0	11.1	6.1	122.0%
Multi-Year Capital	421.9	437.5	15.6	3.7%
Positions	2,625	2,673	48	1.8%

¹ The requests in this memorandum do not include the costs related to the budget of the Office of Inspector General (OIG). The OIG's budget is submitted separately from the Board's budget, consistent with the independence of that office.

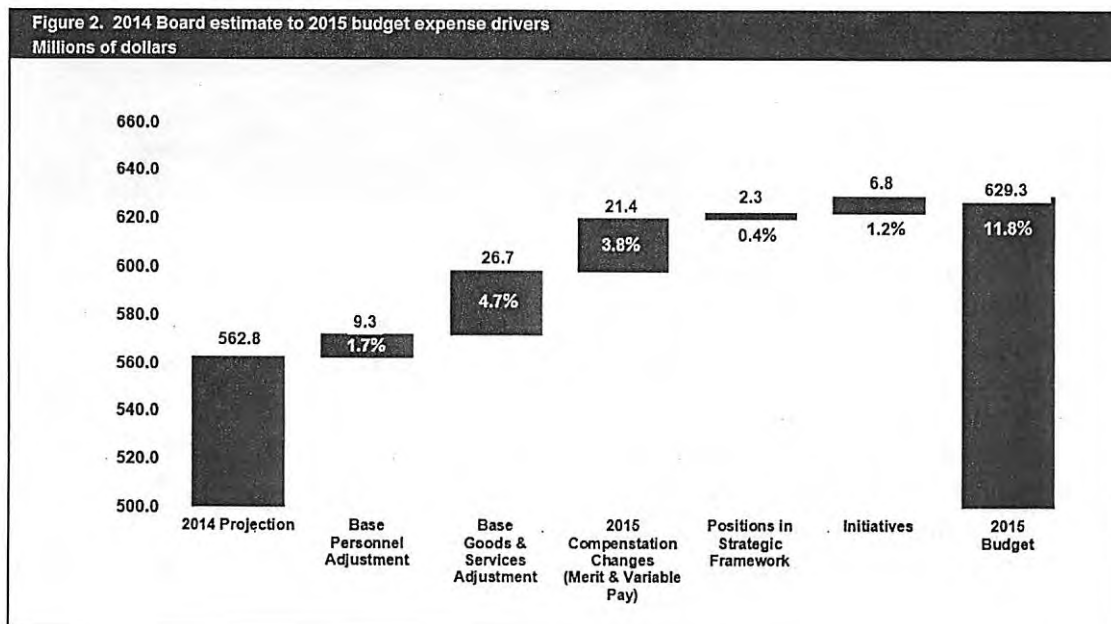
² Bill Mitchell, Steve Bernard, Karen Vassallo, William Futrell, Craig Hiserman, Mary Harrold, and Jeff Mullen co-authored this memo.

replacements, as well as new initiatives. The multi-year capital budget represents a 3.7 percent increase over 2014 and includes new funding for various automation projects and infrastructure enhancements. The following sections provide additional information on each budget request.

Operating Budget

At the start of the budget process, the Chief Operating Officer (COO) and Chief Financial Officer (CFO) met with the Committee on Board Affairs (CBA) and recommended a specific growth target for the Board’s operating budget. The recommendation was based on a growth projection that included known changes in the Board’s base budget (personnel expenses as well as goods and services), positions and funding clearly defined in the framework, and additional initiatives. To develop the recommended budget target, staff in the Division of Financial Management (DFM) reviewed the full-year impact of positions added during 2014, revised the methodology used to budget for retirement and insurance programs, and worked collaboratively with Human Resources staff to review proposed changes to the Board’s variable pay program. DFM staff also reviewed spending trends in goods and services to better align the division budgets with historic spending patterns. Based on staff’s recommendation, the CBA approved a targeted growth of 7.7 percent.

Staff reviewed initial budget requests submitted by divisions and offices, including proposed initiatives and potential savings, and worked collaboratively with all divisions and offices to refine budget submissions and bring the proposed operating budget in line with the CBA’s guidance. The COO and CFO subsequently met with the Executive Committee and the CBA to further review and refine the budget submissions. The operating budget request included in this memorandum (which meets the CBA target) provides resources necessary to maintain the Board’s current operations, fund the compensation actions recently approved by the Board, and implement several new initiatives.



The proposed operating budget of \$629.3 million represents growth of \$66.5 million (11.8 percent) over projected spending for 2014 (see Figure 2)³. As Figure 2 indicates, however, new initiatives

³ Projected spending is based on actual expenses incurred through November 2014, historical spending patterns for goods and services, and current staffing and approved actions for personnel services.

represent only \$6.8 million (1.2 percent) of the total growth over the 2014 projection. Other growth drivers, including increases in the fundamental “run rate” of the Board’s ongoing operating expenses, account for \$36 million (54.1 percent) of the total growth. Specifically, increases in the personnel run rate (\$9.3 million) reflect the full-year impact of the 92 positions added in 2014 and other salary adjustments (such as promotions) completed during 2014. Approximately half of the \$26.7 million increase in goods and services represents the 2015 operating impact of the two major capital projects included in the framework (the Martin Building renovation and the Data Center relocation). Other key drivers of the increase in the goods and services run rate include costs for data, contractual professional services, and depreciation. The operating budget request also includes \$21.4 million to fund the 3 percent merit pool for staff and the new variable pay program approved by the Board. Appendix 1 reflects the proposed 2015 operating budget by division, office, or special account; Appendix 2 contains the same information by accounting classification.

The 2015 operating budget also includes \$2.3 million for the 28 new positions that were included in the strategic framework and \$6.8 million for additional new initiatives. New initiatives include funding for 20 positions in the financial stability, supervisory, and oversight functions to address additional workload requirements that have manifested since the framework was originally developed. As shown in Appendix 3, new initiatives also include funding for several technology projects across multiple divisions, including enhancements to applications supporting the Federal Open Market Committee (FOMC) and the supervisory function. The requested funding for new initiatives is less than half of the total amount originally requested and represents the divisions’ highest priority requirements. While these initiatives are not specifically identified within the framework, they are linked to and provide support for specific themes within the framework document. Staff continues to review the resource requirements for the Division of Banking Supervision and Regulation and may request additional funding or positions in early 2015.

Positions

As discussed above, the proposed 2015 budget includes a staffing increase of 48 positions (28 positions identified within the framework and 20 additional new positions). The increase brings the Board’s total authorized position count to 2,673 (see Figure 3), representing a 1.8 percent increase over current total authorized positions. The 28 positions identified in the framework support the Board’s new financial stability and supervisory mandate under the Dodd-Frank Act and will help the Board to continue building the infrastructure envisioned in strategic theme 1 using an interdisciplinary approach that combines the skills of economists, legal experts, quantitative analysts, and regulatory experts. With the approval of this budget request, the Board will have authorized all 192 positions identified in the strategic framework.

Figure 3. Positions by division grouped by oversight committee

Division	Authorized Positions 12/31/2014	Positions in 2012-15 Strategic Plan	2015 Initiatives	2015 Authorized Positions	Percentage Growth 2014-2015
R&S	336	7	-	343	2.1%
IF	144	6	-	150	4.2%
MA	151	6	-	157	4.0%
OFS	37	1	4	42	13.5%
	668	20	4	692	3.6%
BS&R	428	3	10	441	3.0%
C&CA	103	-	4	107	3.9%
RBOPS	168	-	2	170	1.2%
BDM	118	-	-	118	-
OSEC	53	-	-	53	-
LEGAL	110	5	-	115	4.5%
	281	5	-	286	1.8%
COO	59	-	-	59	-
DFM	69	-	-	69	-
IT	409	-	-	409	-
MGT	440	-	-	440	-
	977	-	-	977	-
Total	2,625	28	20	2,673	1.8%

Capital Budget

The Board's capital budget consists of single-cycle and multi-cycle components. Single-cycle capital projects, such as hardware purchases and software upgrades, are planned for completion within the current budget cycle, while multi-cycle capital projects, such as building renovations and the data center relocation, span several budget cycles.

Figure 4 summarizes the Board's 2015 single cycle capital budget. The proposed budget of \$11.1 million represents an increase of \$6.1 million over the 2014 single-year capital budget. The base budget (\$8.8 million) provides funding for routine equipment purchases and lifecycle replacements, as well as ongoing technology infrastructure projects such as general network systems and infrastructure growth. The proposed budget for initiatives (\$2.4 million) includes funding for the FOMC virtual desktop infrastructure expansion; servers and automated process improvement tools in the Division of Consumer and Community Affairs; and support for upgrades to the statistics function.

Figure 4. 2015 Single-Cycle Capital Budget
Millions of dollars

Division	2015 Base Budget	Initiatives	2015 Total
BDM	0.2	-	0.2
OSEC	0.1	-	0.1
R&S	0.2	-	0.2
IF	-	-	-
MA	-	0.2	0.2
OFS	-	-	-
BS&R	-	-	-
C&CA	0.1	0.1	0.2
LEGAL	-	-	-
COO	-	-	-
DFM	-	-	-
RBOPS	-	-	-
IT	5.7	2.1	7.8
MGT	2.5	-	2.5
Total	8.8	2.4	11.1

Note: Components may not sum to totals and may not yield percentages shown because of rounding.

Figure 5. 2015 Multi-Cycle Capital Budget
Millions of dollars

Project	Current Project Life Budget	Initiatives	New Project Life Budget
Martin Building Renovation	244.0	-	244.0
Data Center Relocation	83.4	-	83.4
NYA Reconfiguration	26.2	-	26.2
International Square	17.5	2.1	19.6
Eccles Mechanical & Infrastructure Upgrades	9.0	-	9.0
Eccles Switchgear Replacement	8.9	-	8.9
Eccles Window Upgrade	5.3	-	5.3
Eccles IT Closets	0.5	-	0.5
C Street Barriers	1.5	-	1.5
Martin Data Center	7.0	-	7.0
HR strategic Automation	4.7	-	4.7
C-SCAPE	11.8	-	11.8
CDO Platforms	1.6	2.4	4.0
Procurement Software	0.3	-	0.3
Wholesale Data Mart	-	3.2	3.2
e-Discovery	-	2.3	2.3
Fire Alarm System Upgrade	-	5.2	5.2
RWRS Conference Room Modernization	-	0.4	0.4
Total	421.9	15.6	437.5

Note: Components may not sum to totals and may not yield percentages shown because of rounding.

Figure 5 summarizes the Board's multi-cycle capital budget. The proposed budget is largely a continuation of projects already in progress, including the two large capital projects included in the framework (the Martin Building renovation and Data Center relocation). No changes to these budgets are required, as both projects are expected to remain within budget.

The proposed increase of \$15.6 million in the multi-cycle capital budget is driven in part by changes to two existing projects: build out of up to 15,000 square feet leased space at International Square to accommodate growth in the Division of Banking Supervision and Regulation and automation platforms to modernize data infrastructure in the Board's Chief Data Office. The multi-cycle budget also includes funding for several new initiatives: the wholesale data mart, a centralized secure location for multiple collections and data sets accessible throughout

the Federal Reserve System; e-Discovery, an automated tool to respond to Freedom of Information Act, Congressional, and litigation requests; replacement of the fire alarm systems in the Eccles and New York Avenue buildings; and conference room modernization at the Board's relocation site.

2015 Budget Considerations

The 2014 operating budget took an initial step to better align the personnel services budget with actual hiring patterns. Additional steps taken for 2015 in budgeting for personnel expenses, as well as goods and services, should bring the entire operating budget much closer to actual historic spending patterns. Better aligning the budget with spending trends will provide a sufficiently constraining budget and demonstrate commitment to the framework's goal for fiscal responsibility, while providing necessary resources for the Board to achieve its goals and objectives.

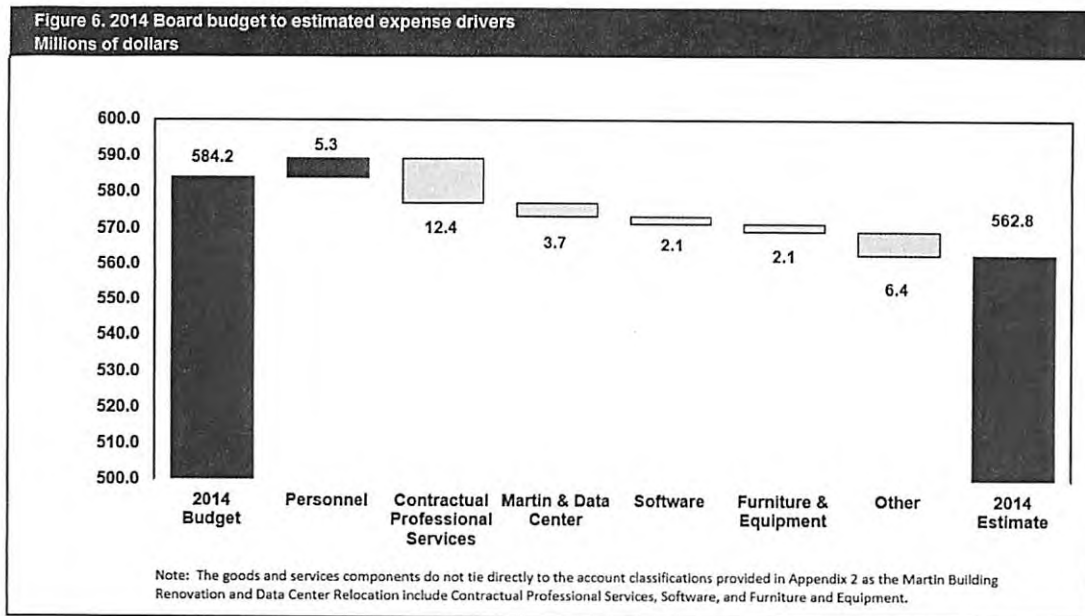
Meeting the CBA's 7.7 percent growth target required all divisions to make difficult choices and prioritize their greatest needs for 2015. During the budget process, many divisions noted that adjustments made to meet the budget target, although consistent with historical spending, represent a risk to fully meeting operational requirements in the coming year. DFM staff have committed to continue working collaboratively with all divisions and offices throughout the year to monitor spending and identify projected over and underruns that warrant realignment of operational resources. Several divisions also identified potential future staffing needs to help finish implementing requirements stemming from the Dodd-Frank legislation and to meet new requests from Board members, while continuing to achieve ongoing operational requirements. Projected increases in staffing will eventually impact support functions, to include placing additional demands on available office space. Other budget risks stem from uncertainty about the rising expenses associated with the Board's data needs and the infrastructure necessary to support effective data management. As part of the framework, the Board approved its two largest capital projects in recent years – the renovation of the Martin Building and the relocation of the Data Center. Although the Board has retained consultants to assist in these efforts and has capable staff with experience dealing with complex projects, both initiatives continue to require careful monitoring given the size of their budgets, critical importance, and continued public focus on Board operations. The Board has also begun developing a strategic plan to guide its operations over the 2016-19 horizon, which will help inform future budget requests.

2014 Budget Performance

For the current year, staff project that the Board will underrun its operating budget by approximately \$21.4 million, or 3.7 percent. As shown in Figure 6, staff project that personnel expenses will exceed the budget by \$5.3 million, offset by a significant underrun in goods and services (including contractual professional services, software, furniture and equipment, and the 2014 operating expenses for the Martin Building and Data Center relocation projects).

Although staff project that the Board will overall underrun its 2014 operating budget, several divisions are projected to be overrun at year-end, primarily in their salary expenses (see Appendices 1 and 2). The overruns are, in part, the result of divisions' ability to hire faster than projected. The overruns are also attributable to decisions made as part of the 2014 budget process. Specifically, several divisions were authorized additional positions but were not provided additional funding, in anticipation of underruns in other parts of the Board's budget. Staff also

project year-end overruns in application support costs because the 2014 budget authorized divisions to pursue technology projects without providing the additional funding.



The Board's Delegations of Administrative Authority provide the Administrative Governor, the COO, and the CFO the ability to reallocate funding, as long as there is no increase to the overall operating budget. While this delegated authority could be used to reallocate funding between accounts and between divisions to adjust for projected over expenditures, given the projected significant underrun in the overall operating budget, staff believe that reallocations this late in the year are not operationally necessary, add little value for the associated administrative burden, and may collectively exceed the delegation limits. Therefore staff believe that the more transparent approach is to request Board approval for the projected over expenditures as listed in the two appendices.

APPENDICES

Appendix 1. Board 2015 operating budget by division grouped by oversight committee
Millions of dollars

Division	2014	2014	Variance 14B to 14E		2015	Variance 14E to 15B		Variance 14B to 15B	
	Budget	Estimate	Amount	Percent	Budget	Amount	Percent	Amount	Percent
RS	61.8	62.7	1.0	1.6%	66.2	3.5	5.6%	4.5	7.2%
IF	26.8	25.7	(1.1)	-4.2%	28.6	2.9	11.3%	1.8	6.7%
MA	32.3	30.3	(2.0)	-6.2%	34.0	3.8	12.4%	1.8	5.5%
OFS	7.0	6.6	(0.4)	-6.1%	7.6	1.1	16.2%	0.6	9.1%
	127.8	125.2	(2.6)	-2.0%	136.5	11.2	9.0%	8.7	6.8%
BS&R	107.9	112.2	4.3	4.0%	122.4	10.3	9.1%	14.6	13.5%
CCA	24.6	25.4	0.9	3.5%	27.3	1.9	7.4%	2.7	11.1%
RBOPS	34.7	35.0	0.3	0.8%	39.6	4.5	13.0%	4.8	13.9%
BDM	26.8	25.7	(1.1)	-4.1%	27.3	1.7	6.5%	0.6	2.2%
OSEC	9.7	9.6	(0.0)	-0.5%	10.0	0.4	4.5%	0.4	3.9%
LEGAL	24.3	24.5	0.2	0.9%	25.9	1.4	5.7%	1.6	6.7%
	60.7	59.8	(0.9)	-1.5%	63.3	3.5	5.8%	2.6	4.3%
COO	10.2	10.0	(0.2)	-1.7%	14.0	4.0	39.9%	3.8	37.5%
DFM	10.3	10.4	0.1	1.3%	11.1	0.7	7.2%	0.9	8.5%
IT	92.2	82.1	(10.1)	-10.9%	94.8	12.7	15.5%	2.6	2.8%
MGT	111.6	109.2	(2.5)	-2.2%	114.0	4.8	4.4%	2.3	2.1%
	224.2	211.7	(12.6)	-5.6%	233.9	22.2	10.5%	9.6	4.3%
EXTRA	17.8	14.1	(3.7)	-20.8%	26.0	11.9	84.2%	8.2	46.0%
OTHER	(13.5)	(20.6)	(7.1)	52.8%	(19.6)	1.0	-5.0%	(6.1)	45.1%
	4.3	(6.5)	(10.8)	-250.2%	6.4	12.9	-199.0%	2.1	48.6%
TOTAL	584.2	562.8	(21.4)	-3.7%	629.3	66.5	11.8%	45.1	7.7%

Note: Components may not sum to totals and may not yield percentages shown because of rounding.

Appendix 2. Board 2015 operating budget by accounting classification

Millions of dollars

Account	2014	2014	Variance 14B to 14E		2015	Variance 14E to 15B		Variance 14B to 15B	
	Budget	Estimate	Amount	Percent	Budget	Amount	Percent	Amount	Percent
Salaries-Board	327.9	335.1	7.2	2.2%	362.5	27.4	8.2%	34.6	10.6%
Retirement/Thrift Plans	42.2	41.6	(0.6)	-1.5%	44.8	3.2	7.7%	2.5	6.0%
Employee Insurance	28.6	27.3	(1.3)	-4.5%	31.3	4.0	14.6%	2.7	9.4%
Personnel	398.7	404.0	5.3	1.3%	438.5	34.5	8.6%	39.8	10.0%
Postage & Shipping	0.5	0.3	(0.2)	-42.2%	0.8	0.5	149.5%	0.2	44.2%
Travel	15.1	14.7	(0.4)	-2.4%	14.7	(0.0)	-0.2%	(0.4)	-2.6%
Telecommunications	7.9	8.6	0.7	8.6%	6.8	(1.8)	-21.4%	(1.2)	-14.6%
Printing & Binding	2.2	1.4	(0.8)	-36.2%	1.8	0.5	33.2%	(0.3)	-15.0%
Publications	0.6	0.5	(0.2)	-23.6%	0.5	0.0	2.2%	(0.1)	-21.9%
Stationery & Supplies	2.3	2.4	0.1	5.5%	1.5	(0.9)	-38.5%	(0.8)	-35.1%
Software	17.0	13.3	(3.7)	-21.7%	15.3	2.0	15.1%	(1.7)	-9.9%
Furniture & Equip	14.3	9.5	(4.8)	-33.4%	7.5	(2.0)	-21.3%	(6.8)	-47.6%
Rentals	16.2	16.5	0.4	2.3%	22.9	6.4	38.6%	6.8	41.8%
Books & Subscriptions	1.3	1.2	(0.1)	-9.1%	15.0	13.8	1164.0%	13.7	1048.9%
Utilities	3.6	3.2	(0.5)	-12.6%	2.9	(0.3)	-9.1%	(0.7)	-20.6%
Repairs & Alterations Bld	3.0	2.6	(0.4)	-12.5%	2.9	0.3	10.1%	(0.1)	-3.6%
Repairs & Maintenance F&E	3.4	3.5	0.1	3.6%	5.2	1.7	48.6%	1.8	53.9%
ARC Expense/R&S	1.0	1.0	0.0	0.0%	1.1	0.1	10.7%	0.1	10.7%
ARC Income/R&S	(1.0)	(1.0)	-	0.0%	(1.1)	(0.1)	10.7%	(0.1)	10.7%
Contingency Proc. Ctr.	1.3	1.3	(0.1)	-5.6%	1.3	0.1	5.8%	(0.0)	-0.1%
Contractual Prof Srvcs	64.4	51.3	(13.2)	-20.5%	51.6	0.3	0.6%	(12.9)	-20.0%
Interest Expense	0.0	0.0	0.0	13.8%	0.0	(0.0)	-57.4%	(0.0)	-51.5%
Tuition/Registration/Memb	5.1	3.9	(1.2)	-22.6%	4.6	0.7	17.3%	(0.5)	-9.2%
Subsidies & Contributions	0.8	0.7	(0.0)	-5.4%	0.8	0.1	10.2%	0.0	4.2%
All Other	5.1	4.3	(0.8)	-16.3%	7.7	3.4	80.4%	2.6	51.0%
Depreciation	27.7	26.9	(0.9)	-3.1%	36.9	10.0	37.4%	9.2	33.1%
IRM User Charge	36.5	39.6	3.2	8.6%	40.8	1.1	2.9%	4.3	11.8%
IRM Income	(36.7)	(39.9)	(3.2)	8.7%	(41.1)	(1.1)	2.8%	(4.3)	11.7%
Income	(6.1)	(7.0)	(0.9)	15.0%	(9.6)	(2.6)	36.9%	(3.5)	57.4%
G&S	185.5	158.8	(26.7)	-14.4%	190.8	32.0	20.1%	5.3	3.3%
TOTAL	584.2	562.8	(21.4)	-3.7%	629.3	66.5	11.8%	45.1	7.7%

Note: Components may not sum to totals and may not yield percentages shown because of rounding.

Appendix 3. Summary of 2015 Initiatives
Millions of dollars

Division	Initiative Description	Operating	Capital	Positions
MA	FOMC System Enhancements	0.9	-	-
MA	FOMC VDI Expansion	-	0.2	-
OFS	Initiative Positions	0.3	-	4
BS&R	Initiative Positions	1.0	-	10
BS&R	Wholesale Data Mart	0.8	3.2	-
BS&R	Volcker Rule	0.6	-	-
BS&R	FISMA	0.1	-	-
BS&R	Secure Interagency Access	0.2	-	-
BS&R	FRIT Customer Relationship Mgt.	0.8	-	-
BS&R	FRIT Build Support	0.6	-	-
C&CA	Consumer Compliance Supervision	0.3	-	3
C&CA	Communication	0.1	-	1
C&CA	Event Mgt. Software	0.1	-	-
C&CA	Business Data Analytics	0.2	0.1	-
C&CA	Forward Looking Supervision	0.1	-	-
C&CA	Business Process Improvements	0.2	0.0	-
Legal	e-Discovery	0.3	2.3	-
COO	CDO Platforms	-	2.4	-
COO	Financial Data Repository	-	-	-
RBOPS	Payment System Roadmap	0.2	-	1
RBOPS	Survey Production & Analysis	0.1	-	1
IT	Initiative CPS	1.8	-	-
IT	Statistics Function Support	1.1	2.1	-
MGT	Fire Alarm System Upgrade	-	5.2	-
MGT	Additional Leased Space	0.1	2.1	-
MGT	RWRS Conf. Room Modernization	-	0.4	-
IT Income	Initiatives	(3.0)	-	-
Total		9.8	17.9	20

Note: Components may not sum to totals and may not yield percentages shown because of rounding.