



*Annual Report:  
Budget Review*

Board of Governors of the Federal Reserve System

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## *Introduction*

# *Federal Reserve Budget Process and Operational Areas*

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

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

The Federal Reserve System plays a major role in the nation's payments mechanism. The Reserve Banks distribute currency and coin, provide wire and automated clearinghouse transfers of funds and securities, and process domestic checks. In addition, the Federal Reserve 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 1995, the Federal Reserve System spent an estimated \$1.1 billion in net operating expenses. Total spending of an estimated \$2.0 billion was offset by an estimated \$922 million in revenue from priced services, reimbursements, and other income. 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 \$23.8 billion in 1995. Earnings in excess of expenses, dividends, and surplus—in 1995, an estimated \$23.4 billion—are transferred 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 1996 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 1995 the Board and the Reserve Banks conducted approximately 613 state member bank examinations and approximately 1,929 bank holding company inspections and acted on a total of 3,508 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 1995 the System conducted approximately 540 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 1995 the Reserve Banks distributed \$363.6 billion in currency and \$4.6 billion in coin and destroyed \$113.8 billion in unfit currency.

The Reserve Banks (along with their Branches and regional centers) also process checks for collection—approximately 14 billion checks in 1995 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 2,300 institutions use Fedwire through off-line means such as telephone. In 1995, approximately 78 million transfers valued at about \$223 trillion were sent over Fedwire, an average of \$3.1 million per transfer and \$892 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 1995, approximately 900,000 net settlement entries for participants in small-dollar clearing arrangements were processed by the Reserve Banks.

Approximately 25,140 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 1995, all of the approximately 7,450 ACH endpoints had electronic connections with the Federal Reserve. In 1995 the Reserve Banks processed approximately 2.78 billion ACH transactions valued at about \$9.2 trillion; approximately 22 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 1995 the Reserve Banks processed approximately 13.7 million securities transfers valued at \$158 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 1.8 million transactions in 1994 and about 0.8 million transactions in 1995.

### 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 federal government. They monitor the tax receipts deposited in the more than 10,000 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. ■

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# *The 1996 Budgets*

## Chapter 1

# Federal Reserve System

For 1996, the Federal Reserve System has budgeted net operating expenses of \$1,121.6 million. Revenue from priced services provided to depository institutions is expected to total \$791.4 million, or 37.1 percent of total budgeted operating expenses. Total operating expenses are budgeted at \$2,134.5 million, an increase of 5.1 percent over estimated 1995 expenses. Of this total, \$1,968.8 million is for the Reserve Banks and \$165.7 million is for the Board of Governors (table 1.1).

Not included in the budget for operations are expenses for Reserve Bank special projects, which are budgeted at \$36.9 million for 1996, down from \$43.2 million estimated for 1995.<sup>1</sup> Also excluded is the cost of currency, budgeted at \$442.3 million for 1996, an increase of 18.5 percent over the estimated 1995 cost of \$373.2 million.<sup>2</sup> The distribution of expenses is similar to that in previous years, with the Reserve Banks accounting for approximately three-fourths of the total (chart 1.1).

System employment (including staff for the special projects) is budgeted at 25,468 for 1996, a decline of 8 from the

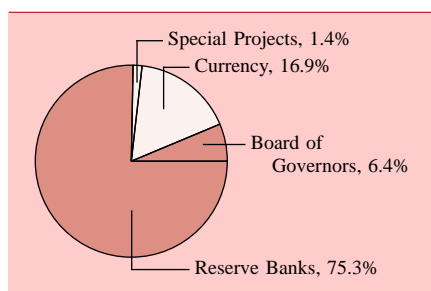
estimated 1995 level. (Details are given in chapters 2 and 3.)

### Net Expenses

The System expects to recover 47.5 percent of its budgeted 1996 operating expenses. The budget includes revenue from priced services, other income, and claims for reimbursement. After these items are deducted from budgeted 1996 operating expenses, the net expenses of the System show an increase of 6.7 percent over estimated 1995 net operating expenses (table 1.2).

Revenue from priced services represents fees that are set so as to recover the full cost of providing the services (as required by the Monetary Control Act of 1980), including the imputed cost of float and the return on capital that would have been received, and the taxes that would have been paid, had a commercial entity in the private sector furnished the services. Projected revenue from priced services is detailed in table 1.3; the constraint imposed on Federal Reserve

*Chart 1.1*  
Distribution of Expenses of the  
Federal Reserve System, 1996<sup>1</sup>



1. See text notes 1 and 2.

1. As research and development efforts, special projects are separate from the continuing operations of the System and are therefore not included in the System operations budget. These relatively costly, short-term projects are expected to benefit both the System and the banking industry as a whole. A description of the special project approved for 1996 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.

budgets by the need to keep such services competitive and the calculation of fees are discussed in appendix A. “Other income” comes from services provided on behalf of the U.S. Treasury that are paid for by the depository institutions using the services; included

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

Table 1.1

Expenses of the Federal Reserve System for Operations, Special Projects, and Currency, 1994–96<sup>1</sup>

Millions of dollars, except as noted

Entity and type of expense	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
<i>Operating expenses</i> <sup>2</sup>					
Reserve Banks <sup>3</sup> .....	1,796.9	1,873.6	1,968.8	4.3	5.1
Personnel .....	1,168.3	1,188.2	1,234.0	1.7	3.9
Nonpersonnel .....	628.6	685.4	734.8	9.0	7.2
Board of Governors <sup>4</sup> .....	144.8	158.0	165.7	9.1	4.9
Personnel .....	108.9	118.0	122.8	8.4	4.1
Nonpersonnel .....	35.9	40.0	42.9	11.4	7.3
<b>Total System operating expenses</b> .....	<b>1,941.7</b>	<b>2,031.6</b>	<b>2,134.5</b>	<b>4.6</b>	<b>5.1</b>
<b>Personnel</b> .....	<b>1,277.2</b>	<b>1,306.2</b>	<b>1,356.8</b>	<b>2.3</b>	<b>3.9</b>
<b>Nonpersonnel</b> .....	<b>664.5</b>	<b>725.4</b>	<b>777.7</b>	<b>9.2</b>	<b>7.2</b>
Special projects <sup>5</sup> .....	61.4	43.2	36.9	...	...
Currency <sup>6</sup> .....	368.2	373.2	442.3	1.4	18.5

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, 1994–96

Millions of dollars, except as noted

Item	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Total System operating expenses .....	1,941.7	2,031.6	2,134.5	4.6	5.1
LESS					
Revenue from priced services .....	767.2	757.6	791.4	-1.2	4.5
Other income .....	5.7	5.8	6.1	1.8	5.2
Claims for reimbursement <sup>1</sup> .....	211.0	216.9	215.4	2.8	-7
EQUALS					
<b>Net System operating expenses</b> .....	<b>957.8</b>	<b>1,051.3</b>	<b>1,121.6</b>	<b>9.8</b>	<b>6.7</b>

1. 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, 1994–96**

Millions of dollars

Service	1994 actual	1995 estimate	1996 budget
Funds transfers and net settlement .....	91.6	89.0	90.5
Automated clearinghouse services .....	66.9	74.6	78.4
Commercial checks .....	582.4	569.2	595.2
Book-entry securities transfers .....	15.9	15.8	15.7
Noncash collection .....	4.1	3.8	4.8
Special cash services .....	6.3	5.2	6.8
<b>Total .....</b>	<b>767.2</b>	<b>757.6</b>	<b>791.4</b>

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

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

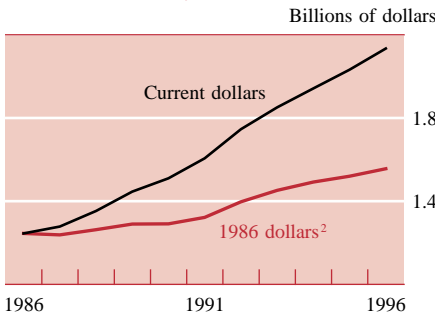
**Trends in Expenses and Employment**

From actual 1986 to budgeted 1996 amounts, the operating expenses of the Federal Reserve System (excluding special projects) have increased an

average of 5.5 percent a year (2.3 percent a year when adjusted for inflation) (chart 1.2). Over the same period, total System expenditures, including special projects, have increased an average of 5.7 percent a year, the same as the rate of growth of nondefense discretionary spending by the federal government (chart 1.3). Federal Reserve System employment, including staff working on special projects and Federal Reserve Automation Services (FRAS), has increased 745 over the period (chart 1.4).

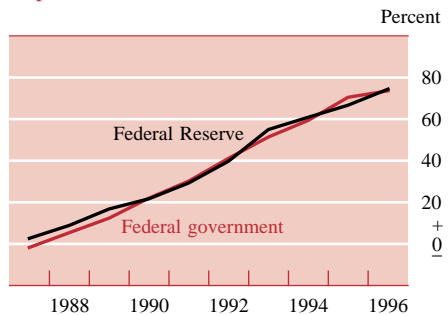
From 1982, when the transition to the requirements of the Monetary Control Act of 1980 was completed, through 1984, System expenses remained essentially flat when adjusted for inflation, and employment declined. In 1985, the staffing level was increased in a pronounced effort to strengthen supervision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

**Chart 1.2**  
**Operating Expenses of the Federal Reserve System, 1986–96<sup>1</sup>**



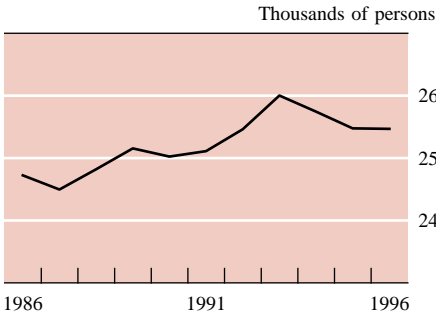
1. For 1995, estimate; for 1996, budget.
2. Calculated with the GDP price deflator.

**Chart 1.3**  
**Cumulative Change in Federal Reserve System Expenses and Federal Government Expenses, 1987–96<sup>1</sup>**



1. Federal Reserve System expenses are operating expenses plus the cost of special projects; federal government expenses are discretionary spending less expenditures on defense. For 1995, estimate; for 1996, budget.

**Chart 1.4**  
**Employment in the**  
**Federal Reserve System, 1986–96<sup>1</sup>**



1. Includes FRAS staff.

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 continuing through projected 1996, spending on bank supervision expanded, reflecting an increase in the number and complexity of examinations, greater attention to problem institutions, and the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

### Operational Areas

For budgeting purposes, the expenses of the Federal Reserve are classified according to the four major operational areas of the System (table 1.4). The costs of

**Table 1.4**  
**Operating Expenses of the Federal Reserve System, by Operational Area, 1994–96<sup>1</sup>**

Millions of dollars, except as noted

Operational area and entity	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Monetary and economic policy .....	196.2	210.8	224.1	7.4	6.3
Reserve Banks .....	120.9	127.5	136.6	5.5	7.1
Board of Governors .....	75.3	83.3	87.5	10.6	5.1
Services to the U.S. Treasury and other government agencies <sup>2</sup> .....	209.4	222.2	223.6	6.1	.6
Services to financial institutions and the public .....	1,108.3	1,131.2	1,181.5	2.1	4.4
Reserve Banks .....	1,105.1	1,127.6	1,177.6	2.0	4.4
Board of Governors .....	3.2	3.6	3.9	12.5	8.0
Supervision and regulation .....	427.8	467.5	505.3	9.3	8.1
Reserve Banks .....	361.5	396.3	431.0	9.6	8.8
Board of Governors .....	66.3	71.2	74.3	7.4	4.4
<b>Total .....</b>	<b>1,941.7</b>	<b>2,031.6</b>	<b>2,134.5</b>	<b>4.6</b>	<b>5.1</b>
<b>Reserve Banks .....</b>	<b>1,796.9</b>	<b>1,873.6</b>	<b>1,968.8</b>	<b>4.3</b>	<b>5.1</b>
<b>Board of Governors<sup>3</sup> .....</b>	<b>144.8</b>	<b>158.0</b>	<b>165.7</b>	<b>9.1</b>	<b>4.8</b>

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.

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.

### **1996 Budget Initiatives**

Several major initiatives that have an impact on System budgets will continue or begin in 1996:

- Consolidation of System automation
- Installation of high-speed currency processors
- Installation of equipment and software to support image processing of commercial and Treasury checks and archival of Treasury checks.

Partly offsetting the greater expenditures associated with these initiatives are lower costs associated with staff reductions that are resulting from the consolidation of savings bonds operations, from downsizing due to volume declines, and from automation consolidation. ■

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## Chapter 2

# Board of Governors

The 1996 budget for the Board of Governors provides \$161.1 million for operations, \$1.6 million for extraordinary items (projects of a unique nature), and \$3.0 million for the Office of Inspector General. The Board has authorized 1,721 staff positions for operational areas and 31 positions for the Office of Inspector General; no positions are required for the extraordinary items. The total of 1,752 positions is 8 more than the number authorized at the end of 1995; however, the total is down from the number authorized in the original 1995 budget, as positions were eliminated during the year in support of the President's program to reduce government staffing.

### Overview of the Budget

#### Board Operations

The operations budget of \$161.1 million, which covers the Board's four operational areas (described in the Introduction), is 5.2 percent larger than estimated 1995 expenses. Increased expenditures to maintain operations at the 1995 level—expenses such as salary increases, rate increases for benefits, the full-year cost of rental space added in 1995, and increases in the cost of goods and services—account for 2.8 percentage points of the increase. Initiatives to expand training in the Division of Banking Supervision and Regulation, enhance office automation, maintain facilities, and support several smaller projects account for 3.1 percentage points, for a total increase of 5.9 percent. The imposition of a \$1 million savings target, which is high by historical standards, reduces the increase over estimated 1995 expenses to 5.2 percent.

#### Extraordinary Items

Inclusion of certain periodic or one-time projects in the operations budget can result in undue volatility in the size of the budget and create competition for funds needed to carry out the Board's basic mission; therefore, for the past few years, funds for these "extraordinary items" have been set apart from the operations budget. For 1996, \$1.6 million has been budgeted for two extraordinary items: a program to develop new training courses for examination staff and completion of a major survey begun in 1994. Details are given at the end of this chapter.

#### Office of Inspector General

The 1996 budget for the Office of Inspector General, \$3.0 million, is 0.9 percent lower than estimated 1995 expenses. The completion of an automation project and the elimination of one position during 1995 are the main factors in the decrease.

### Highlights of the Budget

Efforts in several areas have a major effect on the Board's 1996 operations budget.

#### Consumer and Community Affairs

##### *Community Reinvestment Act*

Now that regulations for the Community Reinvestment Act have been written, new challenges lie ahead. Board staff will be addressing such issues as the way in which the new data collection and distribution systems will be organized, the extent to which the public will

be allowed access to the data, and the types of analytical tools that will be used by examiners.

### *Fair Lending*

The issue of whether creditors should be required to collect data on race and gender is currently being reviewed. Because fair lending is an important and sensitive area and because judicial guidance is lacking, examination of this issue will continue to absorb significant Board resources in 1996.

### Regulatory Review

In 1996, staff members will be working to meet the requirements of the Riegle Community Development and Regulatory Improvement Act of 1994, section 303, that the Board review its regulations and policies to improve efficiency; reduce unnecessary costs and remove inconsistent or duplicative requirements; work with the other banking agencies to make the regulations and guidelines implementing common statutory and supervisory policies uniform; and, jointly with the other banking agencies, report to Congress on progress in these endeavors. Staff members will also be pursuing alternatives to legislative and regulatory intervention: Significant resources will be devoted to carrying out the Board's consumer protection responsibilities through national education campaigns in the financial services area.

### Reserve Bank Support

#### *Training Activities*

The Board's 1996 budget includes funds for a major effort to enhance examiner training. The ongoing costs of the program—expenses associated with

administering training and presenting individual courses—are expected to remain approximately the same as in 1995. One-time projects to develop new courses or to significantly revise existing courses are included in the extraordinary items budget.

#### *Reserve Bank Audits*

While the new program for the auditing of Reserve Banks by an outside firm was being developed and evaluated, funding was included in the extraordinary items budget. Now that the developmental and evaluation work has been completed, funding is included in the Board's operations budget.

### Economic Analysis

The Board's 1996 budget includes funds for foreign travel to enable staff members to develop broader, better focused interaction with foreign governments, central banks, and private-sector individuals. The main objectives are to enhance staff members' understanding of the issues facing other nations, to familiarize staff members with the structure and function of supervisory agencies and the payment and securities clearing systems abroad, and to better maintain relationships with key individuals in other nations.

### Automation

#### *Administrative Systems*

##### *Automation Project*

The Administrative Systems Automation Project (ASAP) is intended to improve personnel and financial management systems at the Board. A major focus during 1996 will be human resources and position management.

Accounting for information management resources will be simplified through implementation of a commercial, off-the-shelf project accounting module. Also, software to manage the Board's publications inventory, subscriptions, and sales will be developed.

#### *Statistics and Reserves System*

The Statistics and Reserves System (STAR), a centralized software system supporting both the Reserve Banks and the Board that will provide financial and statistical data for the administration of the Board's monetary, regulatory, and supervisory policies, will be implemented in 1996. STAR will replace both the STAT (statistics) system and the CRR (contemporaneous reserve requirements) system.

#### *Recabling and Automation Infrastructure Activities*

A major part of the premises-wide network currently supporting the flow of data throughout the Board was designed ten years ago to take advantage of the existing wire installed for the telephone system. Steadily increasing storage of critical data on file servers and databases, the transfer of mainframe applications to a network environment, videoconferencing, and expanded Internet access require the installation of fiber optic cable. The 1996 budget also includes funds to expand and enhance the Board's premises-wide network and its services; the infrastructure will be augmented to handle growing requirements for distributed processing, backup and recovery capabilities will be expanded, system reliability and availability will be improved, and remote access to network resources for staff members working from home and while traveling will be improved.

#### Facilities

The 1996 budget includes funds for several initiatives related to the maintenance of the Board's aging facilities, including resolution of a structural problem in office space that was added during building renovations in the late 1970s. A structural engineer is determining the extent of the problem and will recommend alternative solutions. Preliminary funding for repair work, based on internal estimates, is included in the budget.

Work will continue in 1996 to solve persistent problems with the air handling system in the Eccles Building to ensure that proper heating, cooling, and air quality can be maintained. A three-phase capital project to replace air handling equipment was begun in 1994, and work in the east and central portions of the building has been completed. The 1996 budget provides funds for the replacement of the aging equipment in the west side of the building. This work will complete the project.

The 1996 budget also provides funds to ensure proper maintenance of the facilities and compliance with the Clean Air Act and the Americans with Disabilities Act.

#### Potential Requirements Not Funded in the 1996 Budget

Two potential developments that would have significant implications for funding are not included in the 1996 budget because legislation is still pending or the requirements are not yet fully defined.

- The transfer of regulatory authority for the Real Estate Settlement Procedures Act (RESPA) from the Department of Housing and Urban Development to the Board is becoming more likely. If the transfer does take place,

the Board will assume difficult and complex rulewriting responsibilities. A portion of the work could be absorbed by current staff members, but some new positions may be required.

- When the mainframe computer was acquired in 1994, the decision was made to purchase capacity to service only known demand and to rely on modular expansions as necessary. There is little surplus disk capacity to meet requirements for data storage resulting from the collection of CRA data and installation of the new STAR

system. Sporadic peaks of demand noted by the technical staff may indicate that additional capacity will be needed in 1996.

### Operations Budget by Division and Object of Expense

The overall operations budget, detailed by Board division, is shown in table 2.1, and the number of authorized staff positions for Board operations is shown in table 2.2. The trend in operating expenses over the past ten years, by object of expense, is shown in table 2.3.

Table 2.1

#### Expenses of the Board of Governors, by Division, Office, or Special Account, 1994-96

Dollars, except as noted

Division, office, or special account	1994 actual	1995 estimate	1996 budget	Change, 1994 to 1995		Change, 1995 to 1996	
				Amount	Percent	Amount	Percent
Board Members .....	3,800,329	4,346,642	4,373,225	546,313	14.4	26,583	.6
Secretary .....	3,778,925	4,224,496	4,381,020	445,571	11.8	156,524	3.7
Legal .....	7,208,178	7,572,909	7,911,196	364,731	5.1	338,287	4.5
Research and Statistics ..	23,427,877	25,049,624	26,624,840	1,621,747	6.9	1,575,216	6.3
International Finance ....	8,714,489	9,553,638	9,831,012	839,149	9.6	277,374	2.9
Banking Supervision and Regulation .....	24,470,056	26,004,974	26,089,392	1,534,918	6.3	84,418	.3
Human Resources Management .....	4,604,717	5,407,355	5,489,397	802,638	17.4	82,042	1.5
Support Services .....	25,965,692	27,111,377	28,138,299	1,145,685	4.4	1,026,922	3.8
Controller .....	2,309,882	2,817,185	3,167,052	507,303	22.0	349,867	12.4
Consumer and Community Affairs .....	4,856,659	5,771,190	6,321,350	914,531	18.8	550,160	9.5
Staff Director for Management .....	2,058,193	1,979,910	2,163,076	-78,283	-3.8	183,166	9.3
Reserve Bank Operations and Payment Systems .....	11,974,263	13,030,430	13,645,481	1,056,167	8.8	615,051	4.7
Information Resources Management (IRM) ..	23,598,877	25,681,058	27,784,557	2,082,181	8.8	2,103,499	8.2
Monetary Affairs .....	8,124,502	8,554,999	8,826,525	430,497	5.3	271,526	3.2
Special projects .....	2,117,719	1,523,566	2,213,285	-594,153	-28.1	689,719	45.3
IRM income account <sup>1</sup> ...	-16,273,186	-15,563,553	-15,859,789	709,633	-4.4	-296,236	1.9
<b>Total, Board operations .....</b>	<b>140,737,172</b>	<b>153,065,800</b>	<b>161,099,918</b>	<b>12,328,628</b>	<b>8.8</b>	<b>8,034,118</b>	<b>5.2</b>
Extraordinary items .....	1,254,451	1,868,000	1,568,550	613,549	...	-299,450	...
Office of Inspector General .....	2,820,613	3,062,162	3,035,046	241,549	8.6	-27,116	-9

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

The increment necessary to maintain Board operations at the 1995 level is \$4.3 million, or 2.8 percent over estimated 1995 expenses. Personnel costs for current positions (those not added in the 1996 budget) are increasing \$4.5 million, largely for salaries: The budget includes \$3.9 million to provide an average 4.0 percent increase in salaries; the cost of providing fringe benefits is up only \$0.5 million, significantly less than in previous years, mainly because health insurance costs have stayed relatively constant. The cost of obtaining goods and services at the 1995 level is increasing only slightly; most of the overall increase, \$3.2 million, is attributable to new initiatives approved during

the budget process, mainly initiatives related to automation projects or facilities maintenance. The savings target is offsetting a portion of the increases for 1996.

### Operations Budget by Operational Area

The Board's operations budget supports activities in four broadly defined areas: 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 1994–96 are shown in tables 2.4 and 2.5.

Table 2.2

Positions Authorized at the Board of Governors, by Division or Office, 1994–96

Division or office	1994 actual	1995 estimate	1996 budget	Change	
				1994 to 1995	1995 to 1996
Board Members .....	41	43	43	2	0
Secretary .....	61	62	62	1	0
Legal .....	85	83	83	-2	0
Research and Statistics .....	276	274	274	-2	0
International Finance .....	110	108	109	-2	1
Banking Supervision and Regulation .....	247	244	244	-3	0
Human Resources Management .....	48	49	47	1	-2
Concern <sup>1</sup> .....	22	22	22	0	0
Support Services .....	260	261	261	1	0
Controller .....	33	34	34	1	0
Consumer and Community Affairs .....	57	66	66	9	0
Staff Director for Management .....	10	10	10	0	0
Reserve Bank Operations and Payment Systems .....	126	125	125	-1	0
Information Resources Management <sup>2</sup> .....	249	245	249	-4	4
Monetary Affairs .....	67	67	67	0	0
<b>Subtotal<sup>3</sup> .....</b>	<b>1,692</b>	<b>1,693</b>	<b>1,696</b>	<b>1</b>	<b>3</b>
Reimbursable IRM support <sup>2</sup> .....	17	20	25	3	5
<b>Total, Board operations .....</b>	<b>1,709</b>	<b>1,713</b>	<b>1,721</b>	<b>4</b>	<b>8</b>
Office of Inspector General .....	32	31	31	-1	0

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 HMDA

processing on a reimbursable basis are shown separately, as reimbursable IRM support.

3. Includes eleven summer intern positions and seventeen youth positions.

Monetary and Economic Policy

The 1996 budget for monetary and economic policy is \$69,363,000, an increase of \$3,578,000, or 5.4 percent, over estimated 1995 expenses. Activi-

ties 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 the

*Table 2.3*  
Operating Expenses of the Board of Governors, by Object of Expense, 1986–96

Dollars, except as noted

Object of expense	1986 actual	1987 actual	1988 actual	1989 actual	1990 actual	1991 actual	1992 actual
<i>Personnel services</i>							
Salaries .....	53,907,104	53,897,434	56,148,964	61,282,747	68,565,290	73,814,229	79,624,065
Retirement .....	2,669,919	3,040,162	3,432,541	3,895,063	4,600,876	5,061,514	6,297,728
Insurance .....	2,793,075	3,360,712	3,704,162	4,412,059	4,931,007	6,498,143	6,701,386
Subtotal .....	59,370,098	60,298,308	63,285,667	69,589,869	78,097,173	85,373,886	92,623,179
<i>Goods and services</i>							
Travel .....	2,541,080	2,839,098	3,160,877	3,328,569	3,402,408	3,461,161	3,866,956
Postage and expressage .....	1,011,146	1,003,675	1,155,989	1,070,114	1,141,989	1,205,177	1,116,289
Telecommunications ..	1,481,210	1,589,541	1,570,881	1,543,082	1,758,280	1,605,383	1,799,049
Printing and binding ..	919,417	1,044,007	1,089,282	1,110,232	1,153,340	1,042,125	1,102,529
Publications .....	9,736	-553,721	-399,780	-363,868	-558,890	-928,376	-487,119
Stationery and supplies .....	823,700	882,518	718,675	748,374	897,458	720,201	766,724
Software .....	2,336,462	2,698,215	2,511,195	2,505,712	2,100,705	2,428,141	2,789,229
Furniture and equipment .....	804,473	912,190	683,986	527,403	827,093	693,850	1,185,164
Rentals .....	2,358,492	1,077,223	526,797	-53,281	-964,521	-930,489	-923,096
Books and subscriptions .....	437,607	453,194	505,042	581,957	578,255	608,422	695,953
Utilities .....	1,489,504	1,606,458	1,599,072	1,570,807	1,701,944	1,685,659	1,805,394
Building repairs and alterations ...	891,762	1,146,201	1,043,950	849,336	943,208	1,001,932	2,071,284
Building repairs and maintenance .	1,208,295	1,711,866	2,001,771	1,904,533	1,837,383	1,896,945	1,969,385
Contingency Processing Center expenses ..	0	0	0	142,409	236,866	190,571	263,578
Contractual professional services .....	2,067,158	2,262,974	3,128,128	3,353,702	2,685,647	2,669,270	4,491,285
Tuition/registration and membership fees .....	591,255	533,136	564,406	512,829	601,730	671,010	842,216
Subsidies and contributions .....	703,213	657,451	697,237	413,020	529,289	638,975	735,835
Depreciation .....	5,792,926	7,463,035	7,528,810	6,740,169	5,881,928	5,607,265	6,010,707
All other .....	-841,893	-1,433,861	-1,446,788	-781,803	-451,910	167,698	85,482
Subtotal .....	24,625,543	25,893,200	26,639,531	25,703,297	24,302,202	24,434,920	30,186,844
<b>Total, Board operations .....</b>	<b>83,995,641</b>	<b>86,191,508</b>	<b>89,925,198</b>	<b>95,293,166</b>	<b>102,399,375</b>	<b>109,808,806</b>	<b>122,810,023</b>
Extraordinary items ...	0	0	0	0	0	373,333	3,147,319
Office of Inspector General .....	0	127,369	579,512	718,224	1,341,281	1,568,102	1,930,243

management of the nation's monetary policy. The percentage increase for this area is slightly higher than the percentage increase for the overall budget because of automation initiatives.

## Supervision and Regulation

The 1996 budget for supervision and regulation is \$58,907,000, an increase of \$3,196,000, or 5.7 percent, over esti-

*Table 2.3*

Continued

Dollars, except as noted

Object of expense	1993 actual	1994 actual	1995 estimate	1996 budget	Percentage change, 1995 to 1996	Average annual percentage change, 1986 to 1996
<i>Personnel services</i>						
Salaries .....	87,599,597	90,527,712	98,997,942	103,519,724	4.6	6.7
Retirement .....	7,068,246	7,535,217	7,752,905	7,618,500	-1.7	11.1
Insurance .....	7,706,077	8,407,540	8,734,404	9,198,987	5.3	12.7
Subtotal .....	102,373,920	106,470,469	115,485,251	120,337,211	4.2	7.3
<i>Goods and services</i>						
Travel .....	4,585,941	4,640,006	4,764,535	5,189,664	8.9	7.4
Postage and expressage .....	1,210,452	1,246,922	1,235,000	1,287,000	4.2	2.4
Telecommunications ..	1,866,344	2,034,521	2,069,000	2,099,000	1.4	3.5
Printing and binding ..	1,052,358	1,244,795	1,349,208	1,460,000	8.2	4.7
Publications .....	-334,756	-15,861	-240,634	-266,500	10.7	...
Stationery and supplies .....	847,364	801,978	1,042,840	1,098,271	5.3	2.9
Software .....	2,826,065	3,003,361	3,864,015	4,333,033	12.1	6.4
Furniture and equipment .....	1,257,199	1,177,826	1,366,288	1,170,791	-14.3	3.8
Rentals .....	231,014	554,320	3,880,937	4,289,365	10.5	6.2
Books and subscriptions .....	754,896	923,363	997,658	1,072,599	7.5	9.4
Utilities .....	1,877,818	2,124,129	2,090,000	2,215,000	6.0	4.0
Building repairs and alterations ...	1,330,905	1,742,693	1,915,750	1,449,500	-24.3	5.0
Building repairs and maintenance ..	2,102,307	2,108,816	2,286,257	2,304,969	.8	6.7
Contingency Processing Center expenses ..	201,100	185,197	35,400	0	-100.0	.0
Contractual professional services .....	5,175,207	6,306,314	8,375,561	9,651,940	15.2	16.7
Tuition/registration and membership fees .....	981,023	1,054,888	1,501,696	1,530,917	1.9	10.0
Subsidies and contributions .....	768,186	676,989	786,672	745,900	-5.2	.6
Depreciation .....	6,563,369	6,967,751	7,408,182	8,207,774	10.8	3.5
All other .....	631,885	-2,511,306	-7,147,816	-7,076,516	...	...
Subtotal .....	33,928,677	34,266,702	37,580,549	40,762,707	8.5	5.2
<b>Total, Board operations .....</b>	<b>136,302,595</b>	<b>140,737,172</b>	<b>153,065,800</b>	<b>161,099,918</b>	<b>5.2</b>	<b>6.7</b>
Extraordinary items ...	436,473	1,254,451	1,868,000	1,568,550	...	...
Office of Inspector General .....	2,709,794	2,820,613	3,062,162	3,035,046	-9	42.2

mated 1995 expenses. Supervision includes review of examination reports on state member banks and inspection reports on bank holding companies prepared by the Reserve Banks, preparation of special studies related to international applications, direction of enforcement actions, and regulation of trust activities. Regulation includes the formulation of regulations, oversight of mergers and foreign banking activities, enforcement of consumer protection regulations, and the regulation of securities credit. The percentage increase for this operational area is greater than that for the overall budget because of major investments to improve training for Reserve Bank examiners in capital markets instruments, interest rate risk assessment, internal model evaluation, and asset and liability management.

Holding down the overall rate of increase for this operational area are savings related to charges for use of the mainframe computer: A change in the accounting treatment of the National Information Center (NIC) is reducing charges to the area by almost \$1 million; also, the development of software for

use with the NIC database, which will replace software used with the previous structure and financial databases, will be completed in 1996, resulting in a savings of \$700,000.

**Services to Financial Institutions and the Public**

The 1996 budget for services to financial institutions and the public is \$3,208,000, an increase of \$229,000, or 7.7 percent, over estimated 1995 expenses. This operational area covers support to and oversight of the payment mechanism activities of the 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 System’s currency, coin, and food coupon operations.

The percentage increase for this operational area is greater than that for the overall budget because of the full-year cost of position vacancies filled during 1995. Some of these positions are

*Table 2.4*  
**Expenses of the Board of Governors for Operational Areas,  
 Extraordinary Items, and Office of Inspector General, 1994–96<sup>1</sup>**

Thousands of dollars, except as noted

Type of expense	1994 actual	1995 estimate	1996 budget	Change, 1994 to 1995		Change, 1995 to 1996	
				Amount	Percent	Amount	Percent
Monetary and economic policy .....	59,901	65,785	69,363	5,884	9.8	3,578	5.4
Supervision and regulation ..	52,619	55,711	58,907	3,092	5.9	3,196	5.7
Services to financial institutions and the public .....	2,647	2,979	3,208	332	12.5	229	7.7
System policy direction and oversight .....	25,570	28,590	29,622	3,020	11.8	1,032	3.6
<b>Total, Board operations ...</b>	<b>140,737</b>	<b>153,065</b>	<b>161,100</b>	<b>12,328</b>	<b>8.8</b>	<b>8,035</b>	<b>5.2</b>
Extraordinary items .....	1,254	1,868	1,569	614	...	-299	...
Office of Inspector General .	2,821	3,062	3,035	241	8.6	-27	-9

1. Operating expenses include allocations for support and overhead.

at higher levels, and the increased costs have a large effect on the area's relatively small budget.

### System Policy Direction and Oversight

The 1996 budget for System policy direction and oversight is \$29,622,000, an increase of \$1,032,000, or 3.6 percent, over estimated 1995 expenses. This operational area covers oversight, direction, and supervision of System and Board programs. Included are oversight of Reserve Bank programs that directly support Board members in carrying out their functions and operations; budgeting and accounting; financial examinations; audit and operations reviews; and automation and communications. Salary increases are the major reason for the higher costs for this operational area. A lesser factor is the transfer of the cost of the audits of the Reserve Banks from the

extraordinary items budget to this area of the operations budget.

### Capital Budget

The Board's 1996 capital budget of \$9.9 million provides for facilities improvements and improved office automation and automation infrastructure.

Approximately \$4.0 million is budgeted for several critical projects to maintain the integrity of the existing buildings: \$1.6 million for completion of a project to improve heating, ventilation, and air conditioning; \$0.5 million for the 1996 portion of the cost to replace the chiller system; \$0.7 million for ongoing modifications to bring the buildings into compliance with the Americans with Disabilities Act; and \$1.2 million for other building projects.

A total of \$4.8 million is budgeted for automation projects, including \$1.2 mil-

Table 2.5

### Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead, and Office of Inspector General, 1994–96

Activity	1994 actual	1995 estimate	1996 budget	Change, 1994 to 1995		Change, 1995 to 1996	
				Amount	Percent	Amount	Percent
Monetary and economic policy .....	437	433	434	-4	-.9	1	.2
Supervision and regulation ...	384	392	392	8	2.1	0	.0
Services to financial institutions and the public .....	21	21	21	0	.0	0	.0
System policy direction and oversight .....	162	163	163	1	.6	0	.0
Support and overhead .....	688	684	686	-4	-.6	2	.3
<b>Subtotal<sup>1</sup> .....</b>	<b>1,692</b>	<b>1,693</b>	<b>1,696</b>	<b>1</b>	<b>.1</b>	<b>3</b>	<b>.2</b>
Reimbursable IRM support <sup>2</sup> ...	17	20	25	3	17.6	5	25.0
<b>Total, Board operations .....</b>	<b>1,709</b>	<b>1,713</b>	<b>1,721</b>	<b>4</b>	<b>.2</b>	<b>8</b>	<b>.5</b>
Office of Inspector General ...	32	31	31	-1	-3.1	0	.0

1. Includes eleven summer intern positions and seventeen youth positions.

2. Positions that provide IRM support to the Federal Financial Institutions Examination Council, on a reimbursable basis, for processing of HMDA data.

lion for the research divisions to upgrade and expand network capabilities, \$0.8 million to begin the Boardwide data recabling project, \$0.7 million for enterprise network enhancements, \$0.6 million to continue the development and implementation of ASAP, and \$0.3 million for the modernization of the Central Automation/Telecommunications Operations (CATO) center. The remaining funds are for smaller projects, mainly office automation.

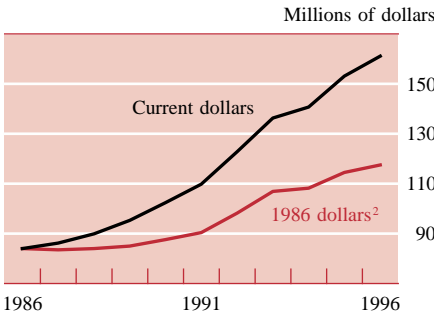
**Trends in Expenses and Employment**

The increase in the 1996 operations budget, 5.2 percent, is lower than the

8.8 percent increase from 1994 to 1995 mainly because of a smaller merit increase (4.0 percent for 1996 versus 5.5 percent for 1995), a smaller increase for rental space (\$400,000 versus \$1.2 million), and continuing significant efforts to hold down costs. The 5.2 percent increase is also lower than the 8.0 percent average annual rate of increase over the past five years and the 6.7 percent average rate over the past ten years. The lower growth for 1996 reflects a slowing of the high rate of growth in recent years attributable to the supervision and regulation operational area. Charts 2.1 through 2.5 show trends over 1986–96.

Approximately three-fourths of the Board’s operating expenses are for personnel; consequently, analysis of trends is heavily tied to staffing levels. Over the past ten years the number of positions authorized for Board operations has increased from 1,568 to 1,721, an increase of 153, or 9.8 percent. The increase in positions over the period was largely in the supervision and regulation operational area (increase of 127 positions). In 1990, the number of positions was at a low of 1,557. Since then, the

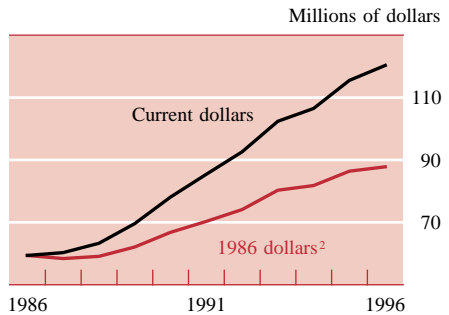
*Chart 2.1*  
Operating Expenses of the Board of Governors, 1986–96<sup>1</sup>



Year	Expenses in millions of	
	Current dollars	1986 dollars
1986	84.0	84.0
1987	86.2	83.5
1988	89.9	84.0
1989	95.3 <sup>3</sup>	85.0
1990	102.4	87.6
1991	109.8	90.4
1992	122.8	98.2
1993	136.3	106.9
1994	140.7 <sup>3</sup>	108.2
1995	153.1	114.5
1996	161.1	117.5

1. Excludes the Office of Inspector General and extraordinary items. For 1995, estimate; for 1996, budget.  
 2. Calculated with the GDP price deflator.  
 3. Number slightly revised from earlier edition.

*Chart 2.2*  
Expenses for Personnel Services at the Board of Governors, 1986–96<sup>1</sup>

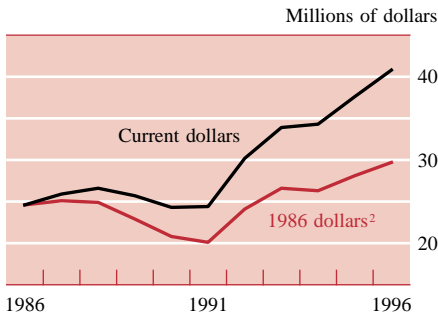


1. Excludes the Office of Inspector General and extraordinary items. For 1995, estimate; for 1996, budget.  
 2. Calculated with the GDP price deflator.

number has increased because of increased workload, primarily in the areas of supervision and regulation and consumer and community affairs. The original 1995 budget authorized 1,731 positions but included a commitment to continue a program to reduce positions begun in 1993. By the end of 1995 the number was 1,713 (a figure that would have been lower except for new requirements in 1995 for 3 new positions related to the CRA and 5 overhead positions associated with the rental space). Although the 1996 operations budget adds 8 new positions, the total for operations, 1,721, is 10 less than the number authorized in the original 1995 budget.

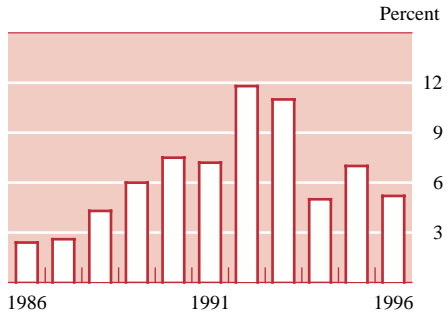
Although the number of authorized positions has fluctuated during the ten-year period, the proportion of the Board's budget devoted to salaries (excluding benefits) has remained relatively stable at roughly 65 percent. The proportion devoted to retirement and insurance has increased, largely because of increases in health insurance costs, a change in the law that applies Medicare costs to federal employees, and changes in the rate of the Board's contribution to the thrift plan.

**Chart 2.3**  
Expenses for Goods and Services  
at the Board of Governors, 1986-96<sup>1</sup>



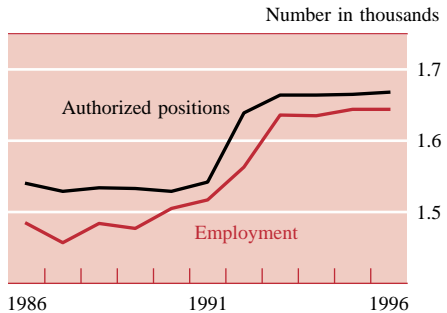
1. Excludes the Office of Inspector General and extraordinary items. For 1995, estimate; for 1996, budget.  
2. Calculated with the GDP price deflator.

**Chart 2.4**  
Annual Rate of Change in Operating  
Expenses of the Board of Governors,  
1986-96<sup>1</sup>



1. Year-end data. Excludes the Office of Inspector General and extraordinary items. For 1995, estimate; for 1996, budget.

**Chart 2.5**  
Employment and Authorized Positions  
at the Board of Governors, 1986-96<sup>1</sup>



Year	Employment	Authorized positions
1986	1,484	1,540
1987	1,457	1,529
1988	1,484	1,534
1989	1,477	1,533
1990	1,505	1,529
1991	1,517	1,542
1992	1,563	1,639
1993	1,636	1,664
1994 <sup>2</sup>	1,635	1,664
1995 <sup>2</sup>	1,644	1,665
1996	1,644	1,668

1. Year-end data. Excludes summer intern and youth positions as well as positions for the Office of Inspector General, which for 1996 number 28 and 31 positions respectively; 1996 figures also exclude 25 positions that provide support to the FFIEC for processing of HMDA data.

2. Numbers slightly revised from earlier edition.

### **Extraordinary Items**

The 1996 extraordinary items budget provides \$1,568,550 for two projects. Included is \$556,500 for the final stage of the Survey of Consumer Finances, which will provide financial data to serve a variety of policy analysis and monetary policy purposes. This effort reflects the Board's interest in enhancing the quality of economic data by obtaining information on income, assets, debts, pensions, employment, use of financial services, saving behavior, and other characteristics of U.S. households. Cross-categorization of the data will allow important statistical observations useful in a variety of economic studies. The second project, which accounts for the remaining \$1,012,050, is for development of training courses for bank examiners.

Two items that were included in the 1995 extraordinary items budget have been moved to the operations budget for 1996. One is the annual audits of approximately two Reserve Banks and of the consolidated financial statement for the twelve Reserve Banks. The other is a survey to help determine the amount of currency held abroad and the degree to which counterfeit currency is a problem in foreign countries. ■

## Chapter 3

# Federal Reserve Banks

The 1996 operating budgets for the twelve Reserve Banks approved by the Board of Governors total \$1,968.8 million, an increase of \$95.2 million, or 5.1 percent, over estimated 1995 expenses (table 3.1). Not included in the budgets is the cost of the Automation Consolidation special project (\$36.9 million).<sup>1</sup> Including the cost of this special project, the Reserve Banks' 1996 budgets total \$2,005.7 million, an increase of \$88.9 million, or 4.6 percent.

Employment, including the staff associated with FRAS, is budgeted at 23,824 ANP (average number of personnel), a decrease of 143 ANP, or 0.6 percent, from estimated 1995 employment. Reserve Bank employment is expected to decrease by 113 ANP, and FRAS employment by 30 ANP.<sup>2</sup>

1. The budget for the Automation Consolidation special project includes transition expenses associated with the move to a centralized environment and expenses for 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 1996 are budgeted at \$25.8 million.

2. The term *average number of personnel* describes levels and changes in employment at the Reserve Banks. ANP measures the number of employees in terms of full-time positions for the time period. For instance, a full-time employee who starts work July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start January 1 count as 1 ANP. Because the Reserve 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 and charts in this volume.

Expenses for personnel (salaries and benefits) account for \$1,234.0 million, or 63 percent of the 1996 operations budget, an increase of \$45.8 million, or 3.9 percent, over estimated 1995 personnel expenses (table 3.2). Nonpersonnel expenses (mainly for building and automation projects) are budgeted at \$734.8 million, an increase of \$49.4 million, or 7.2 percent, over estimated 1995 nonpersonnel expenses.

The following two sections discuss major initiatives and the budget objective for the Reserve Banks in 1996. 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, the special project, and other special categories of expense, and appendix D gives additional data by District and operational area.

## Major Initiatives

The 1996 Reserve Bank budgets provide for the following initiatives (table 3.3):

- Consolidation of data processing and data communications
- Installation of new high-speed currency processors
- Installation of equipment and software to support image processing of commercial and Treasury checks and archival of Treasury checks
- Changes to ensure compliance with generally accepted accounting principles for self-insured medical and postemployment benefits and compensated absences

- Application of the recently adopted regulations implementing the Community Reinvestment Act
- Office automation, and upgrading of local area networks
- New building programs

Charges to the Reserve Banks by FRAS are expected to increase \$20.5 million, mostly because of increases related to data processing (\$17.3 million), but also for additional equipment and support as customers are added to the Fednet data communications network (\$3.2 million).

Expenditures on new projects related to currency are budgeted to increase \$16.8 million over estimated 1995 expenses. Most of the increase is earmarked for the installation of thirty-

four new currency processors in eleven Districts; the remainder is associated with higher depreciation and maintenance expenses, additional staff at two Reserve Banks to operate the new currency processors, and renovation and remodeling of cash areas to accommodate the equipment.

The budget includes \$8.0 million for the check imaging initiative, \$5.0 million more than estimated 1995 expenses. Approximately one-third of the funds are for the imaging project for Treasury checks: In 1996, the Federal Reserve will begin to provide image-supported check truncation services to the Treasury. Also, many Reserve Banks are upgrading their check sorters and their software for processing checks with image-capable equipment in anticipation of

**Table 3.1**  
Expenses and Employment at the Federal Reserve Banks, 1995 and 1996<sup>1</sup>

Category	1995 estimate	1996 budget	Change	
			Amount	Percent
<i>Expenses (millions of dollars)</i>				
Operations <sup>2</sup> .....	1,873.6	1,968.8	95.2	5.1
Special project .....	43.2	36.9	-6.3	...
Total .....	1,916.8	2,005.7	88.9	4.6
<i>Employment (average number of personnel)<sup>3</sup></i>				
Operations <sup>2</sup> .....	23,375	23,261	-113	-5
FRAS .....	593	563	-30	...
Total .....	23,967	23,824	-143	-6

1. Excludes capital outlays.  
 2. Includes support and overhead (see appendix D, table D.3, note 1, for definitions).  
 3. See text note 1 for definition of average number of personnel.

**Table 3.2**  
Operating Expenses of the Federal Reserve Banks, by Object, 1994–96<sup>1</sup>

Millions of dollars, except as noted

Object	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Personnel .....	1,168.3	1,188.2	1,234.0	1.7	3.9
Nonpersonnel .....	628.6	685.4	734.8	9.0	7.2
<b>Total</b> .....	<b>1,796.9</b>	<b>1,873.6</b>	<b>1,968.8</b>	<b>4.3</b>	<b>5.1</b>

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

offering commercial check image products to depository institutions.

In 1994, the Board decided that the Reserve Banks should conform to generally accepted accounting principles (GAAP) for transactions similar to those in the private sector. Therefore, Reserve Bank accounting has been modified to provide for the accrual of self-insured expenses (medical and dental benefits and workers compensation), of compensated absences, and of postretirement benefits, including life and disability insurance. The change has added \$5.6 million to the 1996 budget.

The Reserve Banks have budgeted \$1.5 million and 23 ANP for implementation of the recently adopted Community Reinvestment Act (CRA) regulations—an increase of \$1.0 million and 15 ANP over resources expended on this initiative estimated for 1995.

### 1996 Budget Objective

In 1995, the Board approved a 1996 Reserve Bank budget objective that provided for an increase in total expenses, including special projects, of \$103.6 million, or 5.4 percent, over

estimated 1995 expenses. Excluding expenses for special projects, which were expected to decline in 1996, the increase was projected to be 5.8 percent. The Board anticipated that within this guideline, expenses for ongoing Reserve Bank operations would increase 3.5 percent over estimated 1995 expenses. Expenses for several initiatives—automation consolidation, installation of new currency processors, check imaging activities, and CRA implementation—would account for \$47.5 million of the projected 1996 increase. Partly offsetting the increase was an anticipated decrease of \$3.9 million due to the non-recurring transition expense of the move to conform with GAAP for private-sector-like transactions. The objective also included a savings target of \$2.5 million. Table 3.4 compares the 1996 budget objective with the approved 1996 budget.

The 1996 increase for ongoing Reserve Bank operations (when the savings target is included) is \$19.1 million less than anticipated in the budget objective. The increase is less than the 3.5 percent objective in part because the New York Reserve Bank shifted \$4 mil-

*Table 3.3*  
Major Initiatives of the Federal Reserve Banks, 1996

Million of dollars, except as noted

Initiative	1995 estimate	1996 budget	Change, 1995 to 1996	Contribution to total 1996 operating expense increase (percentage points)
FRAS production charges .....	143.8	164.3	20.5	1.1
Currency processors .....	26.5	43.3	16.8	.9
Check imaging projects .....	3.0	8.0	5.0	.3
Compliance with GAAP .....	3.9	9.5	5.6	.3
Implementation of CRA regulations ..	.5	1.5	1.0	.1
Office automation/LAN upgrades .....	1.8	5.5	3.7	.2
New building programs .....	.9	3.8	2.9	.1
<b>Total .....</b>	<b>180.4</b>	<b>235.9</b>	<b>55.5</b>	<b>3.0</b>
MEMO				
Total operating expenses .....	1,873.6	1,968.8	95.2	5.1

**Table 3.4**  
**1996 Budget Objective and Budget**  
**of the Federal Reserve Banks<sup>1</sup>**

Percent change from 1995 expenses

Item	Budget objective	Budget
Continuing operating expenses . . .	3.5	2.1
Initiatives . . . . .	2.3	3.0
Total excluding special projects .	5.8	5.1
MEMO		
Special project . . . . .	-4	-5
<b>Total including special projects . .</b>	<b>5.4</b>	<b>4.6</b>

1. See data on expenses in table 3.1.

lion more than expected from ongoing operations to the special project. Also, expenses for retirement and other benefits are \$4.3 million lower than expected because of lower hospital and medical costs as Reserve Banks changed their health plans and benefit plans were reevaluated. In addition, other personnel expenses in 1995 were much higher than budgeted for; this nonrecurring increase in overtime expenses and in the use of outside agency help in 1995 contributed \$11.9 million to the difference between the budget objective for ongoing operations and the approved budget.

The increase of \$48.9 million for Reserve Bank initiatives is contributing \$5.3 million above the target approved

by the Board. The cost of compliance with GAAP is increasing from \$3.9 million to \$9.5 million, instead of decreasing from the \$12.2 million to \$8.3 million as was anticipated in the budget objective, owing to better information. Also, the cost of installing the new currency processors is \$6.0 million greater than anticipated; although the new processors are expected to eventually result in lower staffing levels, staffing levels are expected to increase during the transition period to address inventory backlogs and to staff additional work shifts in two Reserve Banks. In contrast, FRAS production charges are \$4.1 million lower than the budget objective: Costs for equipment and software are lower than expected because of a delay in the project to develop ACH application software for use in the consolidation environment.

The 1996 budget objective for special projects was \$33.6 million, \$5.4 million less than estimated 1995 expenses. The 1996 budget, at \$36.9 million, is \$3.3 million more than the budget objective, largely because the New York Reserve Bank’s charges to the special project are increasing \$4.7 million; the elimination in 1996 of the special project on currency authentication is partly offsetting these higher charges.

**Table 3.5**  
**Operating Expenses of the Federal Reserve Banks, by Operational Area, 1994–96<sup>1</sup>**

Thousands of dollars, except as noted

Operational area	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Monetary and economic policy . . . . .	120,869	127,528	136,618	5.5	7.1
Services to the U.S. Treasury and other government agencies . . . . .	209,453	222,176	223,590	6.1	.6
Services to financial institutions and the public . . . . .	1,105,140	1,127,573	1,177,579	2.0	4.4
Supervision and regulation . . . . .	361,458	396,298	430,984	9.6	8.8
<b>Total . . . . .</b>	<b>1,796,920</b>	<b>1,873,575</b>	<b>1,968,770</b>	<b>4.3</b>	<b>5.1</b>

1. Excludes special projects.

## 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 1996 budget for the monetary and economic policy operational area is \$9.1 million, or 7.1 percent, more than estimated 1995 expenses. The increase is due to merit salary increases, higher charges by FRAS for data processing, the dollar impact of additional staff, and higher costs for developing and support-

ing client-server applications. Overhead expenses are increasing \$2.1 million, or 6.0 percent, mainly because of the increases in expenses and the number of personnel and because of higher costs for the library activity, which includes responding to specific inquiries for information. The staffing level will increase by 8 ANP, or 1.1 percent, largely because of the full-year impact of filling vacant positions.

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

The 1996 budget for services to the Treasury and other government agencies

Table 3.6

#### Employment at the Federal Reserve Banks, by Activity, 1994–96<sup>1</sup>

Average number of personnel, except as noted<sup>2</sup>

Activity	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
<i>Operational areas</i>					
Monetary and economic policy .....	729	728	736	-.1	1.1
Services to the U.S. Treasury and other government agencies .....	1,754	1,719	1,627	-2.0	-5.4
Services to financial institutions and the public .....	8,302	8,249	8,161	-.6	-1.1
Supervision and regulation .....	3,079	3,115	3,226	1.2	3.6
<i>Support and overhead<sup>3</sup></i>					
Support .....	4,603	4,578	4,534	-.5	-1.0
Overhead .....	5,163	4,985	4,976	-3.5	-.2
<b>Total</b> .....	<b>23,630</b>	<b>23,375</b>	<b>23,261</b>	<b>-1.1</b>	<b>-.5</b>

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, 1994–96<sup>1</sup>

Thousands of dollars, except as noted

Service	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Economic policy determination .....	96,192	99,780	107,025	3.7	7.3
Open market trading .....	24,677	27,748	29,593	12.4	6.6
<b>Total</b> .....	<b>120,869</b>	<b>127,528</b>	<b>136,618</b>	<b>5.5</b>	<b>7.1</b>

1. Excludes special projects.

is \$1.4 million, or 0.6 percent, more than estimated 1995 expenses. Data processing charges by FRAS are the largest contributor to the increase. Overhead costs are also increasing, owing to increases resulting from initiatives in the bank administration and personnel areas and increases in security and telephone costs. The regionalization of savings bonds operations is partly offsetting

the increases; the staffing level for this service is expected to decline by 50 ANP, or 6.8 percent, in 1996.

### Services to Financial Institutions and the Public

Expenses for this operational area, which encompasses both priced and nonpriced services, are budgeted to increase

Table 3.8

### Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1994–96<sup>1</sup>

Thousands of dollars, except as noted

Service	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Savings bonds .....	14,082	0	0	...	...
Centralized operations—savings bonds ....	62,930	72,144	69,344	14.6	-3.9
Other Treasury issues .....	19,655	22,579	22,456	14.9	-5
Centralized operations—other Treasury issues .....	2,325	2,593	2,794	11.5	7.8
Centrally provided Treasury and agency services .....	23,830	27,501	30,455	15.4	10.7
Government accounts .....	33,854	38,060	37,152	12.4	-2.4
Food coupons .....	22,654	24,241	25,143	7.0	3.7
Other .....	30,123	35,057	36,245	16.4	3.4
<b>Total .....</b>	<b>209,453</b>	<b>222,176</b>	<b>223,590</b>	<b>6.1</b>	<b>.6</b>

1. Excludes special projects.

Table 3.9

### Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1994–96<sup>1</sup>

Thousands of dollars, except as noted

Service	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Currency .....	198,003	223,596	249,729	12.9	11.7
Coin .....	26,939	26,804	28,696	-5	7.1
Special cash .....	5,939	5,010	5,929	-15.7	18.3
Commercial check .....	531,854	518,174	529,157	-2.6	2.1
Other check .....	35,936	38,315	41,336	6.6	7.9
Funds transfer .....	72,577	68,610	67,546	-5.5	-1.6
Automated clearinghouse .....	83,795	84,622	83,829	1.0	-9
Book-entry securities transfer .....	35,654	38,484	38,875	7.9	1.0
Other securities and noncash collection ...	8,293	7,391	7,911	-10.9	7.0
Loans to member banks and others .....	18,458	20,596	21,877	11.6	6.2
Public programs .....	59,022	66,483	71,652	12.6	7.8
Other .....	28,669	29,489	31,043	2.9	5.3
<b>Total .....</b>	<b>1,105,140</b>	<b>1,127,573</b>	<b>1,177,579</b>	<b>2.0</b>	<b>4.4</b>

1. Excludes special projects.

\$50.0 million, or 4.4 percent, in 1996. The staffing level is budgeted to decrease by 88 ANP; a decline for the commercial check service (160 ANP) is being partially offset by increases for public programs (28 ANP) and for the noncash collection service (14 ANP).

The commercial check service accounts for nearly half of the amount budgeted for this operational area and employs 4,748 ANP. The 1996 budget for this service is increasing \$11.0 million, or 2.1 percent, a result of the installation of equipment and software to support check imaging and higher Fednet costs to support increased electronic products and services to paying financial institutions. Although forecasts differ by District, check volume has continued to stabilize from the substantial losses in 1994. The staffing level for this service is expected to decline by 160 ANP, or 3.2 percent, from the estimated 1995 level.

Expenses for the currency and coin services are budgeted to increase \$28.0 million, or 11 percent, in 1996, mainly because of the installation of new currency processors: Offices that have completed installation of the new processors are trimming staff owing to improved efficiencies, but those that are

in the transition phase are temporarily increasing staff.

The budget for the funds transfer service is declining \$1.1 million, or 1.6 percent, and the budget for the automated clearinghouse (ACH) service is declining \$0.8 million, or 0.9 percent, primarily because of the movement toward a centralized-applications operating environment.

Expenses for public programs in the Reserve Banks are expected to increase \$5.2 million, or 7.8 percent, because of increased publications, expanded community affairs programs and other outreach programs, additional education for financial institutions about the new CRA regulations, and other economics education and public speaking requirements.

### Supervision and Regulation

The 1996 budget increase for the supervision and regulation operational area of \$34.7 million, or 8.8 percent, over estimated 1995 expenses reflects a staff increase of 111 ANP. At the New York Reserve Bank, additional staff will support a multiyear document-imaging initiative and expansion in the foreign banking division. Increases at

*Table 3.10*

#### Expenses of the Federal Reserve Banks for Supervision and Regulation, 1994–96<sup>1</sup>

Thousands of dollars, except as noted

Service	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Supervision of District					
financial institutions .....	219,941	236,598	256,663	7.6	8.5
Consumer affairs .....	28,959	37,074	42,577	28.0	14.8
Administration of laws and regulations					
related to banking .....	95,953	104,069	111,697	8.5	7.3
Studies of banking and financial					
market structures .....	16,605	18,557	20,046	11.8	8.0
<b>Total .....</b>	<b>361,458</b>	<b>396,298</b>	<b>430,984</b>	<b>9.6</b>	<b>8.8</b>

1. Excludes special projects.

other Reserve Banks are a result of state member bank growth; more-comprehensive supervision; the complexities of reviewing nontraditional banking products, regulatory changes, industry consolidation, and geographic expansion; and the full-year impact of filling vacancies in 1995.

**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 1996. The amount budgeted for 1996 is 3.9 percent more than estimated 1995 expenses (table 3.11).

Salaries and other personnel expenses, which account for 49 percent of budgeted 1996 operating expenses, are expected

to be \$32.3 million, or 3.5 percent, greater than estimated 1995 expenses. Expenses for salaries are budgeted to increase \$43.3 million, or 4.8 percent. Merit pay accounts for a large portion of the increase; also contributing to higher salary expenses are promotions, reclassifications, changes in the mix of staff, and structure adjustments. Increases for salaries are being partially offset by a reduction of \$4.6 million in overtime expenses due to volume declines and the conclusion of some 1995 initiatives in the check area; short-term position vacancies (lag) are also partly offsetting salary increases. The decrease in other personnel expenses (\$11.0 million) is due to a decline in outside agency help.

Expenditures for retirement and other benefits, which account for 14 percent of budgeted 1996 operating expenses, are expected to be \$13.5 million, or

*Table 3.11*  
**Operating Expenses of the Federal Reserve Banks, by Object, 1994–96<sup>1</sup>**

Thousands of dollars, except as noted

Object	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
<b>PERSONNEL</b>					
Officers' salaries .....	90,716	95,007	98,758	4.7	3.9
Employees' salaries .....	782,238	809,289	848,844	3.5	4.9
Other personnel <sup>2</sup> .....	38,810	30,002	18,977	-22.7	-36.7
Retirement and other benefits .....	256,572	253,874	267,422	-1.1	5.3
Total personnel .....	1,168,337	1,188,172	1,234,000	1.7	3.9
<b>NONPERSONNEL</b>					
Forms and supplies .....	54,621	55,567	57,467	1.7	3.4
Equipment .....	183,915	154,568	178,688	-16.0	15.6
Software .....	31,101	31,221	34,949	.4	11.9
Shipping .....	78,419	79,157	78,952	.9	-3
Travel .....	40,667	45,488	46,575	11.9	2.4
Buildings .....	154,403	157,561	166,134	2.0	5.4
Recoveries .....	-49,964	-51,319	-51,799	2.7	.9
Other <sup>3</sup> .....	135,420	213,160	223,805	57.4	5.0
Total nonpersonnel .....	628,582	685,403	734,771	9.0	7.2
<b>Total .....</b>	<b>1,796,919</b>	<b>1,873,575</b>	<b>1,968,770</b>	<b>4.3</b>	<b>5.1</b>

1. Excludes special projects.  
 2. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.  
 3. Communications, fees, contra-expenses, shared costs distributed and received, excess capacity, and other.

5.3 percent, greater than estimated 1995 expenses. Approximately 40 percent of the 1996 increase is due to compliance with GAAP; other contributing factors are higher social security payments and thrift plan contributions, a reflection of higher salaries and staffing levels. Medical expenses are also contributing to the increase.

Nonpersonnel expenses, which account for 37 percent of budgeted 1996 operating expenses, are projected to increase 7.2 percent over estimated 1995 nonpersonnel expenses.

Expenditures on equipment are budgeted to increase 15.6 percent, accounting for approximately 9 percent of budgeted 1996 operating expenses. More than half the increase is due to the installation of the new high-speed currency processors. Equipment depreciation and maintenance costs are also increasing, owing mainly to the installation of check imaging, check processing, and end-user computing equipment.

Shipping expenses, which account for approximately 4 percent of Reserve Bank budgeted 1996 operating expenses, are expected to remain flat.

Building expenses, which account for about 8 percent of budgeted 1996 operating expenses, are expected to increase 5.4 percent over estimated 1995 building expenses. The increase is being driven by increased property depreciation resulting from building improvements and renovations, building projects related to the installation of new currency processors, and the new building projects in Minneapolis and Cleveland.

“Other” nonpersonnel expenses are budgeted to increase \$10.6 million over estimated 1995 expenses, accounting for approximately 11 percent of budgeted 1996 expenses. The increase is due mainly to higher charges by FRAS for data processing and data communications.

## Capital Outlays

For the next several years, the Reserve Banks’ capital budget will be dominated by building projects. The New York Reserve Bank will continue the 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. In Cleveland, an annex will be constructed adjacent to the existing building to house a new operations center. This project is scheduled to be completed in late 1996, followed by a complete renovation of the existing building to extend its useful life, improve life safety systems, and enhance the security of valuables handled by the Bank. In 1995, new building programs were approved for the head office in Atlanta and its Branch office in Birmingham; both projects are scheduled to be completed around the end of the century. In Minneapolis, the new office building will be ready for occupancy in July 1997.

For 1996, capital outlays (including funding for FRAS) are budgeted at \$411.0 million, an increase of \$45.4 million, or 12.4 percent over estimated 1995 outlays (excluding FRAS, the increase is \$64.9 million) (table 3.12).

Outlays for buildings in 1996 are budgeted at \$125.6 million, about 30 percent of total capital outlays. Included in the budget are the new building programs in Minneapolis (\$40.8 million), Atlanta (\$3.7 million), and Birmingham (\$2.4 million); the renovation and expansion project in Cleveland (\$35.3 million); the floor-by-floor modernization and renovations in New York (\$13.6 million); and general renovation and modification projects in several other Districts (\$16.4 million). Renovations in currency-processing areas are adding \$3.4 million.

Outlays for data processing and data communications are budgeted at \$113.3 million, approximately 28 percent of total capital outlays. Included in the budget is check-imaging equipment for eleven Districts (\$24.8 million). In 1996, the Federal Reserve will begin to provide image-supported check truncation services to the U.S. Treasury. The budget includes funds for the System's image archival and retrieval system, for high-speed image-processing systems, and for other equipment and upgrades related to the Treasury's effort (\$9.8 million). The remainder of the check-imaging capital budget covers upgrades to medium- and high-speed sorters and the installation of image-enhanced truncation equipment to support the Treasury and to position the Banks to provide commercial check image processing.

Other major data processing and data communications outlays budgeted for 1996 include \$21.8 million for input devices—mainly PC workstations—in all Districts. More than \$8 million is earmarked for CPU equipment, mostly

for CPU upgrades at FRAS to meet production, testing, and contingency processing requirements (\$6.1 million); the remainder of the CPU outlays is related to check operations in five Districts. Storage devices account for \$11.4 million, including \$6.2 million for DASD and tape equipment at FRAS; support for check-processing operations in several Districts will require an additional \$5.1 million. Outlays of \$12.1 million are needed to replace existing LAN communications equipment and to implement several upgrades. FRAS has budgeted \$7.2 million for operations equipment for the Fednet network; the final milestone for the Fednet project, the conversion of District leased-line connections to Fednet, is scheduled to be completed in 1996. In addition, FRAS has budgeted \$4.7 million for parallel sysplex equipment, which is expected to help manage workloads more efficiently, improve application availability, and reduce software costs. The remaining data processing and data communications outlays include \$5.8 million for several

*Table 3.12*  
Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1994–96

Thousands of dollars, except as noted

Class of outlay	1994 actual	1995 estimate	1996 budget	Percentage change	
				1994 to 1995	1995 to 1996
Data processing and data communications equipment <sup>1</sup> .....	143,121	113,405	113,345	-20.8	-.1
Buildings .....	43,385	108,045	125,609	149.0	16.3
Furniture, furnishings, and fixtures .....	12,487	16,555	27,997	32.6	69.1
Other equipment <sup>2</sup> .....	45,330	78,888	85,069	74.0	7.8
Land and other real estate .....	6,866	22,761	11,526	231.5	-49.4
Building machinery and equipment .....	5,194	12,822	21,286	146.8	66.0
Leasehold improvements .....	304	1,209	3,503	298.1	189.9
Software <sup>3</sup> .....	10,431	11,901	22,643	14.1	90.3
<b>Total</b> .....	<b>267,117</b>	<b>365,584</b>	<b>410,979</b>	<b>36.9</b>	<b>12.4</b>

1. Includes FRAS capital of \$63,959 thousand in 1994, \$48,995 thousand in 1995, and \$27,747 thousand in 1996.

2. Includes FRAS capital of \$1,820 thousand in 1994, \$38 thousand in 1995, and \$111 thousand in 1996.

3. Includes FRAS capital of \$6,275 thousand in 1994, \$3,171 thousand in 1995, and \$4,808 thousand in 1996.

projects at the New York Reserve Bank, \$3.9 million for telephone systems, and \$3.6 million for printers.

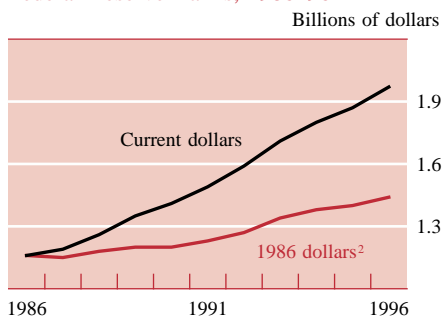
Furniture and other equipment purchases are budgeted at \$113.1 million, about 27 percent of total capital outlays. The continued installation of new currency processors and associated equipment accounts for about half of the total (\$57.4 million). The Reserve Banks plan to spend another \$13.1 million on other cash-related equipment and \$23.1 million to replace furniture and workstations.

Building machinery and equipment outlays are budgeted at \$21.3 million. Included are items related to Minneapolis's new building (\$5.9 million) and replacements and upgrades in several Districts, including chiller replacements and upgrades (\$3.2 million), boiler-generator upgrades (\$1.0 million), elevator upgrades (\$2.0 million), and an HVAC computer in Richmond (\$2.6 million).

Land and other real estate purchases are budgeted at \$11.5 million, for the new building in Birmingham and for the Dallas Reserve Bank's purchase of a lot adjacent to its building to improve the security of the building's perimeter.

*Chart 3.1*

Operating Expenses of the Federal Reserve Banks, 1986–96<sup>1</sup>



1. Excludes expenses for special projects. For 1995, estimate; for 1996, budget.

2. Calculated with the GDP price deflator.

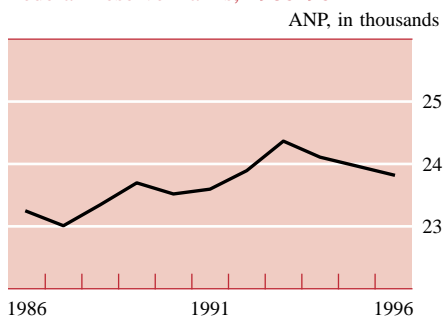
Software purchases in 1996 are budgeted at \$22.6 million. Check-image software accounts for more than half of the total (\$11.6 million). FRAS has budgeted \$4.8 million for software associated mainly with the CPUs that will be upgraded.

### Trends in Expenses and Employment

Over the ten years ending with the 1996 budget, Reserve Bank operating expenses have increased an average of 5.4 percent a year (chart 3.1). The number of employees at the Reserve Banks, excluding FRAS staff, has increased from 23,240 in 1986 to 23,261 in 1996, an increase of 21 ANP (chart 3.2). Since 1986, staffing has increased in supervision and regulation owing to the implementation of the Federal Deposit Insurance Corporation Improvement Act (1,139 ANP), in the currency service owing to volume growth (113 ANP), and in public programs owing to enhanced communications with the public (115 ANP). Partly offsetting these increases have been decreases in the commercial check service (403 ANP), the overhead services

*Chart 3.2*

Employment at the Federal Reserve Banks, 1986–96<sup>1</sup>



1. Includes staff for special projects and FRAS. For 1995, estimate; for 1996, budget. See text note 2 for definition of ANP.

(297 ANP), securities and noncash operations (204 ANP), the ACH and funds transfer services (225 ANP), fiscal agency services (192 ANP), and the monetary policy service (55 ANP). These decreases are due largely to consolidation of operations and to operational efficiencies throughout the System.

Over the five years ending with the 1996 budget, Reserve Bank operating expenses have increased an average of 5.7 percent a year. Increases have been higher since 1991 because of expanded bank supervision and the transition to a consolidated data processing environment. Nonpersonnel costs have been increasing at a much faster rate than personnel costs as the Reserve Banks downsize labor-intensive operations and substitute technology for labor: Since 1991, nonpersonnel expenses have grown an average of 6.9 percent a year, and personnel expenses an average of 5.0 percent a year.

Over the five years, increases have been highest for the supervision and regulation operational area—an average of 12.7 percent a year—as the area continues to expand. Expenses for services to the U.S. Treasury and other government agencies have increased at the five-year average of 5.7 percent a year. Before 1993, when regionalization of savings bonds operations took place, the savings bond service accounted for the bulk of the annual increase for this operational area; since then, the consolidation of savings bonds processing sites has resulted in savings. The monetary and economic policy operational area has grown at an average rate of 5.1 percent a year, reflecting increases in overhead and support. The services to financial institutions and the public operational area has had the lowest average annual increase over the five years, 3.7 percent. Expenses for the currency service have grown an average

of 12.0 percent a year, primarily because of installation of the currency processors, and expenses for public programs have grown an average of 8.4 percent a year. These increases have been partly offset by downsizing in the commercial check service due to volume declines and by centralization efforts in the funds transfer and ACH services.

About half of the expenses in the Reserve Banks' 1996 budget are recoverable through pricing or are reimbursable from the Treasury and other agencies. The proportion of recoverable expenses is down from 60 percent in 1991 because recoverable services have been growing at a slower rate than nonrecoverable services: Between 1991 and 1996, recoverable services have grown an average of 2.2 percent a year, and nonrecoverable services an average of 10.1 percent a year.

### Volume and Unit Costs

In 1996, the volume of measured services as a whole is expected to increase 2.1 percent over 1995 volume, and the unit cost is expected to increase 0.8 percent (table 3.13). Since 1991, volume has increased at an average

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

Percentage change from 1995 to 1996

Service	Volume	Unit cost
Payments .....	3.0	-2.2
Commercial check .....	.7	.0
Automated clearinghouse ....	16.1	-14.7
Funds transfer .....	2.9	-4.4
Other checks .....	.9	7.0
Cash <sup>1</sup> .....	3.9	6.5
Fiscal .....	-6.1	4.8
Securities and noncash .....	3.4	-1.8
<b>All measured services .....</b>	<b>2.1</b>	<b>.8</b>

1. Includes currency and coin services.

annual rate of 1.9 percent and unit cost at an average annual rate of 1.5 percent. The increase in unit cost expected for 1996 reflects a net decrease for the payments services. For the commercial check service, the largest component of the overall index, the unit cost is expected to remain essentially flat, and for the cash service, the second largest component, to increase 6.5 percent.

### **1995 Budget Performance**

The Reserve Banks estimate that 1995 expenses were \$1,873.6 million—\$4.3 million, or 0.2 percent, over the approved budget. At this estimated level of spending, the increase over actual 1994 spending on operations was 4.3 percent.

Seven Reserve Banks expect to be within 1.0 percent of their approved 1995 budgets. Three Banks expect overruns of 1.0 percent or more—Cleveland (2.2 percent), Minneapolis (1.4 percent), and San Francisco (1.0 percent). Major factors in Cleveland's overrun were higher-than-expected costs for Fednet and FRAS production and unbudgeted accounting changes related to the GAAP compliance initiative; in Minneapolis, the most significant reason for the overrun was the GAAP accounting changes; and in San Francisco, backlogs during transition to the new currency processing equipment required the addition of unbudgeted resources. Two Banks expect underruns of more than 1.0 percent—Atlanta (2.0 percent) and Boston (1.2 percent). Atlanta's expenses were lower in 1995 because of the recognition of credits for self-insured medical related to the GAAP compliance initiative; Boston's expenses were lower because the cost of transporting checks within the System, a Systemwide cost included in Boston's budget, was lower than expected. ■

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# *Appendixes*

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## Appendix A

### *Special Categories of System Expense*

Fees for priced services and treatment of capital outlays are explained in this appendix. Also described are the Reserve Bank special project for 1996 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 Financial Services Policy Committee, and ultimately by the Board of Governors.<sup>1</sup> 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

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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 Financial Services Policy Committee comprises the presidents of two Reserve Banks, the first vice presidents of three other Reserve Banks, and the Board's director for Federal Reserve Bank Activities as liaison.

by the Federal Deposit Insurance Corporation (FDIC) (based on expected clearing balances and amounts deferred to depository institutions for items deposited 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 1996

In 1995 the Board approved a 1996 private sector adjustment factor for Reserve Bank priced services of

*Table A.1*

### Pro Forma Balance Sheet for Federal Reserve Priced Services, 1995 and 1996<sup>1</sup>

Millions of dollars

Item	1995	1996
<b>ASSETS</b>		
<i>Short-term assets</i>		
Imputed reserve requirement on clearing balances .....	619.8	409.6
Investment in marketable securities .....	5,577.9	3,686.7
Receivables <sup>2</sup> .....	62.8	64.4
Materials and supplies <sup>2</sup> .....	5.7	8.6
Suspense and difference <sup>2</sup> .....	.1	.0
Prepaid expenses <sup>2</sup> .....	16.1	13.9
Items in process of collection .....	<u>2,592.5</u>	<u>2,413.2</u>
Total short-term assets .....	8,874.9	6,596.4
<i>Long-term assets</i>		
Premises <sup>2,3</sup> .....	337.7	346.4
Furniture and equipment <sup>2</sup> .....	187.8	189.4
Leasehold improvements and long-term prepayments <sup>2</sup> .....	12.6	14.6
Capital leases .....	<u>3.8</u>	<u>2.3</u>
Total long-term assets .....	<u>541.9</u>	<u>552.7</u>
<b>Total assets</b> .....	<b>9,416.8</b>	<b>7,149.1</b>
<b>LIABILITIES</b>		
<i>Short-term liabilities</i>		
Clearing balances and balances arising		
from early credit of uncollected items .....	6,197.7	4,096.3
Deferred-credit items .....	2,592.5	2,413.2
Short-term debt <sup>4</sup> .....	<u>84.7</u>	<u>86.8</u>
Total short-term liabilities .....	8,874.9	6,596.3
<i>Long-term liabilities</i>		
Obligations under capital leases .....	3.8	2.3
Long-term debt <sup>4</sup> .....	<u>161.6</u>	<u>182.7</u>
Total long-term liabilities .....	<u>165.4</u>	<u>185.0</u>
Total liabilities .....	9,040.3	6,781.3
Equity <sup>4</sup> .....	<u>376.5</u>	<u>367.8</u>
<b>Total liabilities and equity</b> .....	<b>9,416.8</b>	<b>7,149.1</b>

1. Data are averages for the year.  
 2. Financed through the private sector adjustment factor; other assets are self-financing.  
 3. Includes allocations of Board of Governors' assets

to priced services of \$0.4 million for 1995 and \$0.5 million for 1996.

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

\$85.8 million, a decrease of \$8.9 million, or 9.4 percent, from the PSAF of \$94.7 million targeted for 1995.

### Asset Base

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

1996 is estimated at \$7,149.1 million (table A.1). The value of assets assumed to be financed through debt and equity in 1996 is \$637.3 million, an increase of \$14.4 million, or 2.3 percent, from 1995 (table A.2); the increase is due primarily to higher priced asset levels at the Reserve Banks.

Table A.2

### Derivation of the Private Sector Adjustment Factor (PSAF), 1995 and 1996

Millions of dollars, except as noted

Item	1995	1996
<b>PSAF COMPONENTS</b>		
<i>Assets to be financed</i> <sup>1</sup>		
Short-term .....	84.7	86.9
Long-term <sup>2</sup> .....	538.2	550.4
Total .....	622.9	637.3
<i>Cost of capital (percent)</i> <sup>3</sup>		
Short-term debt .....	3.5	3.9
Long-term debt .....	8.2	7.6
Pretax return on equity <sup>4</sup> .....	12.1	14.2
Weighted average long-term cost of capital .....	10.9	12.0
<i>Capital structure (percent)</i>		
Short-term debt .....	15.4	13.6
Long-term debt .....	25.4	28.7
Equity .....	59.2	57.7
Tax rate (percent) .....	31.0	29.9
<b>REQUIRED PSAF RECOVERIES</b>		
<i>Capital costs</i> <sup>5</sup>		
Short-term debt .....	3.0	3.4
Long-term debt .....	13.2	13.8
Equity .....	45.6	52.3
Total .....	61.7	69.5
<i>Other costs</i>		
Sales taxes .....	11.3	11.3
Assessment for federal deposit insurance .....	19.0	2.2
Expenses of Board of Governors .....	2.7	2.8
Total .....	33.0	16.3
<b>Total PSAF recoveries</b>		
<b>Millions of dollars</b> .....	<b>94.7</b>	<b>85.8</b>
<b>As a percentage of capital</b> .....	<b>15.2</b>	<b>13.5</b>
<b>As a percentage of expenses</b> .....	<b>15.7</b>	<b>14.1</b>

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

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

3. All short-term assets are assumed to be financed by short-term debt. Of the total long-term assets, 33 percent are assumed to be financed by long-term debt and 67 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 1990-94 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.

### *Cost of Capital, Taxes, and Other Imputed Costs*

For 1996, a pretax rate of return on equity of 14.2 percent, or \$52.3 million, is planned. Other required PSAF recoveries for 1996—imputed sales taxes, imputed FDIC insurance assessment, and Board expenses—total \$16.3 million (table A.2). The \$8.9 million decrease in PSAF recoveries is attributable mainly to the new lower rate for deposit insurance and lower clearing balances anticipated for 1996.

### **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**

Special projects are research and development activities that are expected to provide long-range benefits to the Federal Reserve System and the banking industry as a whole. Because spending on special projects is relatively high and short term, the Federal Reserve accounts for them separately from its operating expenses. For 1996, the Board of Governors has approved one special project.

#### **Automation Consolidation**

In 1992, the Federal Reserve System began to incur expenses for a major effort to consolidate all mainframe computer operations at three sites within the System—Richmond, Dallas, and New York. The Automation Consolidation special project was created to capture the extraordinary costs associated with this effort. In 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, funds transfer processing was moved into the centralized environment, and the San Francisco and New York Reserve Banks completed the System's move into the

District-unique environment. In 1996, consolidation efforts will center around the implementation of the centralized ACH and new book entry applications.

The 1996 budget provides \$36.9 million in support of these efforts. Including 1996 funding, expenditures on this special project to date total \$234.2 million.

### Currency Printing and Circulation

The Bureau of Engraving and Printing prints U.S. currency; the Federal Reserve Banks put it into circulation through depository institutions and destroy it as it wears out (table A.3). The Board of Governors establishes the annual budget for the printing of new notes and ancillary costs and subsequently assesses the Federal Reserve Banks through an accounting procedure similar to that used in assessing the Reserve Banks for Board operating expenses. The Federal Reserve's 1996 currency budget is \$442.3 million, an increase of 18.5 percent over estimated 1995 expenditures (chart A.1).

**Table A.3**  
**Currency in Circulation, New Notes Issued, and Notes Destroyed, 1995 Estimate**

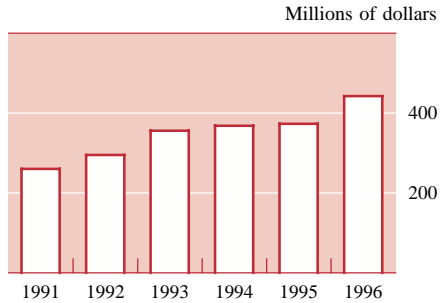
Millions of pieces

Dollar denomination	Notes in circulation <sup>1</sup>	New notes issued <sup>2</sup>	Notes destroyed
1 .....	6,202	4,196	4,529
2 .....	519	29	6
5 .....	1,473	1,035	1,001
10 .....	1,374	848	842
20 .....	4,073	2,053	1,855
50 .....	896	251	182
100 .....	2,392	544	496
<b>Total .....</b>	<b>16,929</b>	<b>8,956</b>	<b>8,911</b>

1. As of November 1995.

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

**Chart A.1**  
**Federal Reserve Budget for Supplying U.S. Currency, 1991-96<sup>1</sup>**

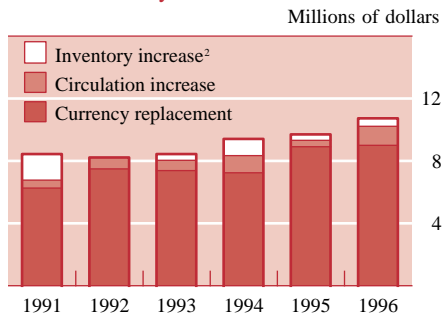


1. For 1995, estimate; for 1996, budget.

### Printing of Federal Reserve Notes

The 1996 budget for the printing of Federal Reserve notes is \$429.3 million, an increase of 18.6 percent over estimated 1995 expenditures (table A.4). The most significant factor influencing the budget is the number of notes printed. The budget provides for the printing of an estimated 10.7 billion notes, 9 percent more than estimated 1995 production. This figure is based on the anticipated destruction of 9 billion notes, an expected increase of 1.2 billion notes in circulation, and a planned increase of 500 million notes in Reserve Bank inventories (chart A.2). The

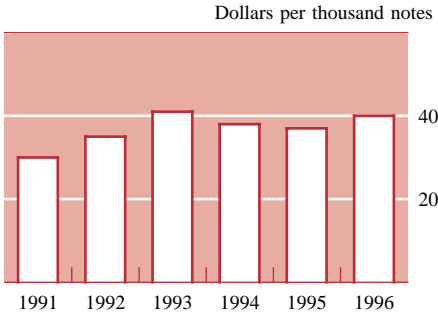
**Chart A.2**  
**Use of Currency Printed in 1991-96<sup>1</sup>**



1. For 1996, estimate.

2. Reserve Bank inventories decreased in 1992.

**Chart A.3**  
**Cost of Printing New Currency, 1991–96**  
 Dollars per thousand notes



increase in the number of notes printed is due primarily to the upcoming introduction of the newly designed \$100 note, which is scheduled to be released to the public in early 1996. To meet demand, the Reserve Banks plan to have 500 million of the new \$100 notes in inventory before the introduction.

Along with the increase in the number of notes printed, the cost of printing the notes is rising. In January 1996, the unit cost for printing notes increased 8.1 percent, to \$40 per thousand notes (chart A.3). The unit cost is the blended costs of printing three types of notes. Of the notes printed in 1996, 12.4 percent will be the newly designed \$100 notes, 45.0 percent will be other threaded currency, and the remaining 42.6 per-

cent will be \$1 notes, which have no thread. The average production cost per thousand notes is \$49.54 for the new \$100 notes, \$35.24 for the other threaded currency, and \$32.09 for the \$1 notes. Two-thirds of the unit cost increase from 1995 to 1996 (\$2 per thousand notes) is attributable to increases in the cost of materials and labor (table A.5). The remaining one-third is earmarked for a worldwide public education program about the new currency design.

The public education program will emphasize several points: (1) U.S. currency will still be easily recognizable as “American” (the size and colors will not change, and the portraits and vignettes will remain); (2) The new design maintains the security of the currency by staying ahead of advances in counterfeit technology; and (3) Currency now in circulation will remain legal tender; the U.S. has never recalled its currency and will not do so now. The program will be carried out through numerous channels, including print and radio announcements, training films, and informational leaflets enclosed with bank statements. The U.S. Treasury will publish and broadcast information in a number of languages, including French, German, Russian, Chinese, Hebrew, and Arabic. In September 1995, the Treasury

**Table A.4**  
**Federal Reserve Costs of Supplying Currency, 1995 and 1996**  
 Dollars, except as noted

Item	1995 estimated	1996 budget	Percentage change
Printing of new Federal Reserve notes .....	361,860,000	429,312,000	18.6
Shipment of new notes .....	7,500,000	8,800,000	17.3
Shipment of fit notes within the System .....	850,000	800,000	-5.9
Extended custodial inventory program .....	0	645,000	...
Purchase of currency pallets .....	430,000	0	...
Shipment of currency pallets to Bureau of Engraving and Printing .....	20,000	25,000	25.0
Reimbursement to the U.S. Treasury .....	2,500,000	2,700,000	8.0
<b>Total cost of currency .....</b>	<b>373,160,000</b>	<b>442,282,000</b>	<b>18.5</b>

*Table A.5*  
**Cost of Printing New Federal Reserve Notes, 1996**

Dollars

Item	Cost per thousand notes	Total cost
1995 printing cost .....	37.00	397,113,600
1996 labor cost increase ....	.50	5,366,400
1996 materials cost increase ..	1.50	16,099,200
Public education program ..	1.00	10,732,800
<b>Total .....</b>	<b>40.00</b>	<b>429,312,000</b>

contracted with Young & Rubicam, Inc., a New York advertising agency, to help develop the program.

### Shipping Costs

Using competitive bidding, the Board contracts with armored carriers to transport new currency from the Bureau of Engraving and Printing's Washington, D.C., and Western facilities to the Federal Reserve Banks and their Branches. The 1996 budget for transporting new currency is \$8.8 million, a 17.3 percent increase over estimated 1995 expenditures. Carrier costs are increasing 7.8 percent, reflecting increased costs in such areas as insurance and air freight as well as the 9 percent increase in the number of new notes shipped. The production of the newly designed \$100 notes is having a disproportional effect on shipping costs: The new \$100 notes constitute only 12.4 percent of the notes to be printed in 1996 but account for approximately 24 percent of the budget for transporting new currency in 1996; in contrast, the \$1 notes constitute 42.6 percent of planned 1996 note production but account for only 10 percent of the 1996 budget for transporting new currency.

The 1996 currency budget also includes \$0.8 million for shipment of fit (usable) currency within the Federal

Reserve System, 5.9 percent less than estimated 1995 expenditures. Such shipments move currency from offices with excess fit currency to offices that would otherwise require new currency. The 1996 budget is lower because the number of intra-System shipments of fit \$50s projected for 1996, in anticipation of the introduction of the newly designed \$50 note in 1997, is less than the number of intra-System shipments of fit \$100s that were necessary in 1995, in anticipation of the newly designed \$100 note.

### Extended Custodial Inventory Program

The extended custodial inventory (ECI) program, developed by the Federal Reserve Bank of New York and approved by the Reserve Banks' Cash/Fiscal Product Office, is a pilot program to facilitate the introduction of redesigned U.S. currency to the international U.S. banknote market. It is intended to enhance the current distribution system by providing an efficient means of introducing the redesigned currency. The New York Reserve Bank will establish the ECI operation to stockpile inventories of the currency at several banks in strategic European locations. The 1996 budget for the ECI program is \$0.6 million.

### Reimbursement to the Treasury

Unfit currency is canceled, destroyed, and accounted for according to procedures prescribed by the U.S. Treasury's Office of Currency Standards. The Bureau of Engraving and Printing processes claims for the redemption of damaged or mutilated currency. The 1996 currency budget includes \$2.7 million to reimburse the Treasury for this service, an 8 percent increase over estimated 1995 expenditures. ■

## 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 94 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 maintain a surplus account to absorb 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 \$20.5 billion for 1994 and are estimated to be \$23.4 billion for 1995. ■

*Table B.1*

#### Income of the Federal Reserve System, 1994 and 1995

Millions of dollars

Source	1994 actual	1995 estimate
Loans .....	11.5	11.3
U.S. government securities ...	19,247.1	23,825.6
Foreign currencies .....	894.5	783.8
Priced services .....	734.4	739.1
Other .....	23.3	35.4
<b>Total .....</b>	<b>20,910.7</b>	<b>25,395.1</b>

Table B.2

Distribution of the Income of the Federal Reserve Banks, 1994 and 1995

Millions of dollars

Item	1994 actual	1995 estimate
Current income <sup>1</sup> .....	20,911	25,395
LESS		
<i>Current expenses of Reserve Banks</i> <sup>2</sup>		
Operating expenses .....	1,572	1,577
Costs of earnings credits .....	224	249
EQUALS		
Current net income .....	19,115	23,570
PLUS		
Net additions to, or deductions from (-), current net income <sup>3</sup> .....	2,398	894
LESS		
Cost of unreimbursed Treasury services <sup>4</sup> .....	34	37
<i>Assessments by the Board</i>		
Board expenses .....	147	161
Cost of currency .....	368	370
<i>Other distributions</i>		
Dividends paid to member banks <sup>5</sup> .....	212	231
Transfers to, or from (-), surplus <sup>6</sup> .....	282	283
EQUALS		
<b>Payment to U.S. Treasury</b> .....	<b>20,470</b>	<b>23,383</b>

1. See table B.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions of \$75.6 million in 1994 and \$119.2 million in 1995 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 22 projects in various stages of completion, since 1979 has completed 131 reports on selected aspects of Federal Reserve operations (tables C.1 and C.2). The GAO has also involved the Federal Reserve in about 78 other reviews not directly related to the System and has terminated 52 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
Relationship of the operations of the Federal Reserve System to the federal budget	10/8/93
Foreign banking	3/31/94
Audit of the Federal Reserve Bank of Dallas	4/11/94
Bank mutual fund profitability	6/1/94
FDICIA provisions	6/24/94
OTC derivative sales practices	7/20/94
CFTC's exemptions	9/1/94
Interstate banking data	2/16/95
Concessions contracts in federal agencies	2/27/95
Financial derivatives update	3/2/95
Mexico's financial crisis	3/7/95
BHC Act prohibition on tying	3/20/95
Federal regulatory burden	3/31/95
Proposals to consolidate U.S. bank regulatory structures	6/12/95
Counterfeit U.S. currency	9/25/95
Clearance and settlement systems	11/2/95
Daiwa Bank activities	11/21/95
Bank regulatory system in Japan	11/30/95
FR fiscal agency functions for the Treasury Department	12/22/95
Trade and financial flows between Panama and Cuba	12/22/95
Oversight of foreign banks' U.S. operations	12/28/95

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
Lessons Learned from Resolving First City Bancorporation of Texas ...	GGD-95-37	3/15/95
Investment of Trust Assets in Bank Proprietary Mutual Funds .....	GGD-95-21	3/16/95
Status Report on the Initiative to Improve Economic Statistics .....	GGD-95-98	7/7/95

*Table C.2*  
Continued

Report	Number	Date issued
Differences in Screening Bank Executives .....	GGD-95-181R	8/17/95
Banks' Securities Activities: Oversight Differs Depending on Activity and Regulator .....	GGD-95-214	9/21/95
Mutual Funds: Impact on Bank Deposits and Credit Availability .....	GGD-95-230	9/22/95
Bank Mutual Funds: Sales Practices and Regulatory Issues .....	GGD-95-210	9/27/95
Challenges Remain to Successfully Implement CRA .....	GGD-96-23	11/28/95

## 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 operations. In addition, it coordinates its

efforts with other governmental and nongovernmental agencies to promote economy and efficiency and to detect and prevent fraud and abuse in activities administered or financed by the Board. The OIG keeps the Congress and the Chairman of the Board fully informed about serious abuses and deficiencies and about the status of any corrective actions.

During 1995, the OIG publicly reported on seven audits (table C.3) and conducted a number of follow-up and other reviews. In addition, the OIG closed six investigations and performed numerous legislative and regulatory reviews. ■

*Table C.3*  
Completed OIG Audit Reports Relating to the Federal Reserve System, 1995

Report	Number	Month of issue
Audit on the Failure of Pioneer Bank .....	A9407	1/95
Audit of the FFIEC's Financial Statements (year ending 12/31/94) .....	A9501	2/95
Audit of the Board's Financial Statements (year ending 12/31/94) .....	A9500	3/95
Audit of the Office of the Secretary's Records Services' Image Processing System .....	A9408	3/95
Audit of the Federal Reserve Examination Policies and Procedures for Commercial Real Estate Loans .....	A9305	3/95
Audit of the National Information Center's Data Security .....	A9502	7/95
Audit of the Board's Applications Processing .....	A9504	11/95

*Appendix D*  
*Expenses and Employment*  
*at the Federal Reserve Banks*

*Table D.1*

Operating Expenses of the Federal Reserve Banks, by District, 1995 and 1996<sup>1</sup>

Thousands of dollars, except as noted

District	1995 estimate	1996 budget	Change	
			Amount	Percent
Boston .....	128,640	132,920	4,280	3.3
New York .....	387,063	407,749	20,687	5.3
Philadelphia .....	100,945	104,343	3,398	3.4
Cleveland .....	110,122	114,712	4,591	4.2
Richmond .....	140,010	147,841	7,830	5.6
Atlanta .....	176,291	185,657	9,366	5.3
Chicago .....	207,186	214,923	7,736	3.7
St. Louis .....	88,391	94,085	5,694	6.4
Minneapolis .....	93,245	98,688	5,444	5.8
Kansas City .....	120,871	127,893	7,022	5.8
Dallas .....	119,673	127,076	7,403	6.2
San Francisco .....	201,139	212,883	11,745	5.8
<b>Total, all Districts .....</b>	<b>1,873,575</b>	<b>1,968,770</b>	<b>95,196</b>	<b>5.1</b>
<i>Special projects</i>				
Currency Authentication Systems .....	2,125	0	-2,125	...
Automation Consolidation .....	41,082	36,905	-4,177	...
Total .....	43,206	36,905	-6,301	...
Total .....	1,916,781	2,005,675	88,894	4.6

1. Excludes capital outlays.

Table D.2

Employment at the Federal Reserve Banks, by District, 1995 and 1996

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

District	1995 estimate	1996 budget	Change	
			Amount	Percent
Boston .....	1,292	1,253	-39	-3.0
New York .....	4,254	4,228	-27	-.6
Philadelphia .....	1,305	1,289	-16	-1.2
Cleveland .....	1,434	1,451	17	1.2
Richmond .....	2,061	2,094	33	1.6
Atlanta .....	2,418	2,366	-51	-2.1
Chicago .....	2,407	2,343	-63	-2.6
St. Louis .....	1,181	1,210	28	2.4
Minneapolis .....	1,303	1,294	-9	-.7
Kansas City .....	1,673	1,669	-4	-.3
Dallas .....	1,562	1,568	6	.4
San Francisco .....	2,485	2,497	12	.5
<b>Total, all Districts .....</b>	<b>23,375</b>	<b>23,261</b>	<b>-113</b>	<b>-.5</b>
FRAS .....	593	563	-30	...
<b>Total .....</b>	<b>23,967</b>	<b>23,824</b>	<b>-143</b>	<b>-.6</b>

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

Table D.3

Expenses of the Federal Reserve Banks, by Operational Area, 1995 and 1996

Thousands of dollars, except as noted

Operational area	1995 estimate	1996 budget	Change	
			Amount	Percent
Monetary and economic policy .....	127,528	136,618	9,090	7.1
Services to the U.S. Treasury and other government agencies .....	222,176	223,590	1,415	.6
Services to financial institutions and the public .....	1,127,573	1,177,579	50,006	4.4
Supervision and regulation .....	396,298	430,984	34,686	8.8
<b>Total .....</b>	<b>1,873,575</b>	<b>1,968,770</b>	<b>95,196</b>	<b>5.1</b>
MEMO <sup>1</sup>				
Support .....	680,082	715,510	35,429	5.2
Overhead .....	503,464	525,968	22,504	4.5

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, 1995 and 1996

Thousands of dollars, except as noted

District	1995 estimate	1996 budget	Change	
			Amount	Percent
Boston .....	54,089	56,018	1,929	3.6
New York .....	200,601	211,017	10,416	5.2
Philadelphia .....	47,362	49,554	2,192	4.6
Cleveland .....	49,688	52,002	2,314	4.7
Richmond .....	70,080	74,044	3,965	5.7
Atlanta .....	81,675	82,965	1,290	1.6
Chicago .....	95,044	98,011	2,967	3.1
St. Louis .....	39,566	43,101	3,534	8.9
Minneapolis .....	45,173	48,254	3,081	6.8
Kansas City .....	58,471	60,636	2,165	3.7
Dallas .....	56,663	59,503	2,840	5.0
San Francisco .....	105,884	112,498	6,614	6.2
<b>Total .....</b>	<b>904,296</b>	<b>947,602</b>	<b>43,305</b>	<b>4.8</b>

Table D.5

Factors in the 1995-to-1996 Change in Salaries  
of Officers and Employees of the Federal Reserve Banks, by District

Percentage points

District	Merit adjust- ment	Structure adjust- ment	Promotion and reclassi- fication	Change in staffing	Turnover and lag <sup>1</sup>	Overtime	Other	Total change
Boston .....	3.7	.5	1.2	-1.2	-.5	-.8	.7	3.6
New York .....	4.8	.1	1.1	-.3	-1.2	-.3	.8	5.2
Philadelphia .....	4.0	.5	.6	.9	-.2	-1.1	.0	4.6
Cleveland .....	3.6	.0	.3	2.2	-1.0	-.4	.0	4.7
Richmond .....	4.4	.0	1.5	2.3	-2.1	-.7	.1	5.7
Atlanta .....	3.9	.0	.5	-1.0	-1.3	-.6	.0	1.6
Chicago .....	4.2	.8	1.5	-1.6	-.9	-1.0	.1	3.1
St. Louis .....	4.6	.0	.9	4.0	-.4	-.3	.1	8.9
Minneapolis .....	4.3	.0	.5	1.4	.0	-.3	.8	6.8
Kansas City .....	4.5	.3	1.2	-.1	-1.4	-.8	.1	3.7
Dallas .....	3.8	.7	.3	.8	.0	-.1	-.5	5.0
San Francisco .....	4.5	.0	.6	1.5	-.1	-.3	.0	6.2
<b>Total .....</b>	<b>4.3</b>	<b>.2</b>	<b>.9</b>	<b>.4</b>	<b>-.9</b>	<b>-.5</b>	<b>.2</b>	<b>4.8</b>

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

Table D.6

Capital Outlays of the Federal Reserve Banks, by District, 1995 and 1996

Thousands of dollars, except as noted

District	1995 estimate	1996 budget	Change	
			Amount	Percent
Boston .....	11,384	14,644	3,260	28.6
New York .....	44,199	69,988	25,788	58.3
Philadelphia .....	7,723	15,342	7,619	98.7
Cleveland .....	53,963	48,684	-5,278	-9.8
Richmond .....	23,843	26,251	2,408	10.1
Atlanta .....	46,210	47,667	1,457	3.2
Chicago .....	24,038	23,000	-1,038	-4.3
St. Louis .....	9,121	8,672	-449	-4.9
Minneapolis .....	28,449	59,397	30,949	108.8
Kansas City .....	15,196	12,893	-2,303	-15.2
Dallas .....	22,452	16,961	-5,492	-24.5
San Francisco .....	26,802	34,816	8,014	29.9
<b>Total, all Districts .....</b>	<b>313,379</b>	<b>378,313</b>	<b>64,934</b>	<b>20.7</b>
FRAS .....	52,205	32,665	-19,540	-37.4
<b>Total, System .....</b>	<b>365,584</b>	<b>410,979</b>	<b>45,394</b>	<b>12.4</b>

Table D.7

Budget Performance of the Federal Reserve Banks, Operating Expenses, by District, 1995<sup>1</sup>

Thousands of dollars, except as noted

District	1995 budget	1995 estimate	Change	
			Amount	Percent
Boston .....	130,202	128,640	-1,562	-1.2
New York .....	383,487	387,063	3,576	.9
Philadelphia .....	100,399	100,945	545	.5
Cleveland .....	107,702	110,122	2,420	2.2
Richmond .....	140,624	140,010	-613	-.4
Atlanta .....	179,970	176,291	-3,680	-2.0
Chicago .....	207,801	207,186	-615	-.3
St. Louis .....	87,628	88,391	763	.9
Minneapolis .....	91,987	93,245	1,258	1.4
Kansas City .....	120,290	120,871	582	.5
Dallas .....	120,176	119,673	-504	-.4
San Francisco .....	199,052	201,139	2,086	1.0
<b>Total, all Districts .....</b>	<b>1,869,318</b>	<b>1,873,574</b>	<b>4,257</b>	<b>.2</b>
<i>Special projects</i>				
Currency Authentication Systems .....	1,300	2,125	825	63.4
Automation Consolidation .....	37,737	41,082	3,344	8.9
Total .....	39,037	43,206	4,169	10.7
<b>Total .....</b>	<b>1,908,355</b>	<b>1,916,780</b>	<b>8,425</b>	<b>.4</b>

1. Excludes capital outlays.

Table D.8

Budget Performance of the Federal Reserve Banks,  
Employment, by District, 1995Average number of personnel, except as noted<sup>1</sup>

District	1995 budget	1995 estimate	Change	
			Amount	Percent
Boston .....	1,277	1,292	14	1.1
New York .....	4,250	4,254	5	.1
Philadelphia .....	1,287	1,305	18	1.4
Cleveland .....	1,443	1,435	-8	-.6
Richmond .....	2,047	2,061	14	.7
Atlanta .....	2,392	2,418	26	1.1
Chicago .....	2,416	2,407	-9	-.4
St. Louis .....	1,155	1,181	26	2.3
Minneapolis .....	1,323	1,303	-20	-1.5
Kansas City .....	1,644	1,673	29	1.8
Dallas .....	1,580	1,562	-18	-1.2
San Francisco .....	2,428	2,486	58	2.4
<b>Total, all Districts</b> .....	<b>23,240</b>	<b>23,375</b>	<b>135</b>	<b>.6</b>
FRAS .....	592	593	1	.2
<b>Total</b> .....	<b>23,832</b>	<b>23,968</b>	<b>136</b>	<b>.6</b>

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

Table D.9

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1991-96<sup>1</sup>

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
1991 .....	106,699	169,483	980,379	237,369	1,493,930
1992 .....	109,954	182,307	1,020,974	276,038	1,589,272
1993 .....	114,617	193,621	1,076,914	326,334	1,711,486
1994 .....	120,869	209,453	1,105,140	361,458	1,796,920
1995 estimate .....	127,528	222,176	1,127,573	396,298	1,873,575
1996 budget .....	136,618	223,590	1,177,579	430,984	1,968,770
MEMO					
Average annual change (percent) .....	5.1	5.7	3.7	12.7	5.7

1. Excludes special projects.

*Table D.10*

**Employment at the Federal Reserve Banks, by Operational Area, 1991–96**

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

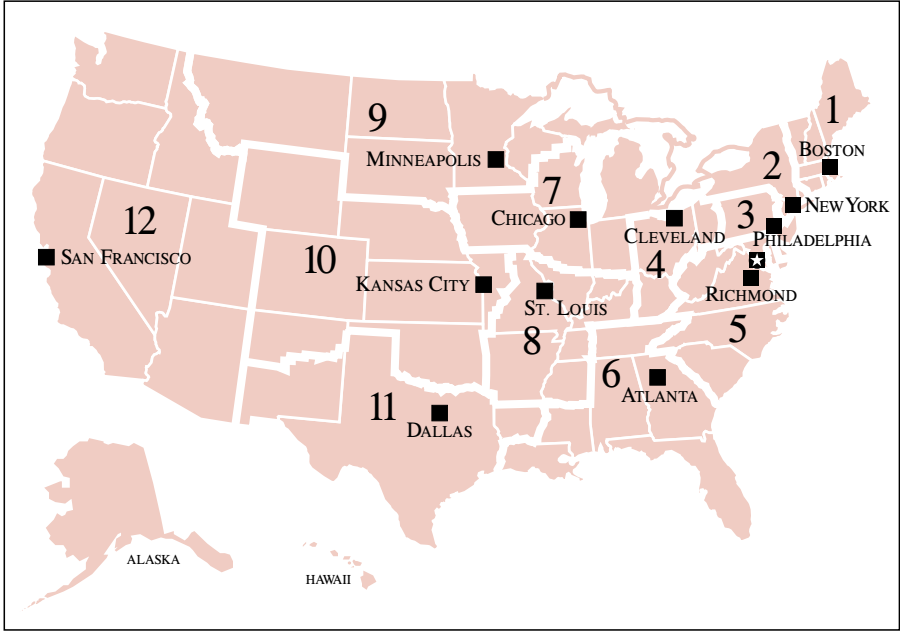
Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Support <sup>2</sup>	Overhead <sup>2</sup>	Total
1991 .....	784	1,870	9,044	2,343	4,629	4,924	23,594
1992 .....	776	1,832	8,878	2,587	4,711	4,998	23,782
1993 .....	751	1,780	8,609	2,910	4,762	5,182	23,995
1994 .....	729	1,754	8,301	3,079	4,603	5,162	23,627
1995 estimate .....	728	1,719	8,249	3,115	4,578	4,985	23,375
1996 budget .....	736	1,627	8,161	3,226	4,534	4,976	23,261
<b>MEMO</b>							
Average annual change (percent) .....	-1.3	-2.8	-2.0	6.6	-4	.2	-3

1. Excludes special projects and FRAS. See chapter 3, note 2, for definition of average number of personnel.  
 2. See table D.3, note 1, for definition.

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*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 1996.

