




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

DATE: December 17, 2013
TO: Board of Governors
FROM: Don Hammond, Chief Operating Officer 
SUBJECT: 2014 Board Operating and Capital Budgets ¹

Action Requested

Staff ² requests that the Board approve the following:

1. A \$584.22 million operating budget for 2014, which includes 2,609 authorized positions, including 223 officers
2. A \$4.37 million single-year capital budget for 2014
3. An increase of \$64.77 million in the multi-year capital budget

Summary

This is the second budget request since the Board approved the 2012-2015 Strategic Framework (framework) in June 2012. The framework identified and framed five overarching themes for the Board to address over the four-year planning horizon, along with recommended resource investments in terms of personnel and facilities. Recognizing the fiscal reality in which the Board operates, the framework also outlines a sixth theme that puts forward an overall cost control strategy and limits future budgetary growth.

The 2014 budget process was grounded in the direction set by the framework as well as the framework's resource constraints. At the start of the budget process, the Chief Operating Officer (COO) and Chief Financial Officer (CFO) met with the Committee on Board Affairs (CBA) and recommended specific growth targets in the Board's base budget. The guidance required that strategic initiatives (i.e., positions or funding clearly defined in the

Component	Current 2013 opplan	Proposed 2014 budget	Increase/ (Decrease)	% Increase
Operating	559.96	584.22	24.26	4.3%
Single-year capital	10.83	4.37	(6.46)	-59.6%
Multiyear capital ¹	343.40	408.16	64.77	18.9%
Positions ²	2,533	2,609	76	3.0%

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

¹ Current 2013 opplan reflects the total life-cycle budget previously approved for multiyear capital projects (\$354.59 million) less projects completed prior to 2014 (\$11.19 million).

² Current 2013 opplan positions are net of reductions approved in 2013.

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

² Bill Mitchell, Karen Vassallo, and Craig Hiserman co-authored this memo.

framework) were to be funded with minimal justification, whereas other initiatives (including efforts that are directly related to, but not specifically described in a theme in the framework) were to be self-funded within the requesting division or through reductions elsewhere within the Board's budget. Increasing the operating budget to fund those initiatives not specifically defined in the framework was to be considered only as a final alternative.

Staff from the Division of Financial Management's (DFM's) Planning and Budget function reviewed budget requests submitted by divisions and offices, including proposed initiatives and potential savings. The COO and CFO subsequently met with the Executive Committee of the Board (ECB) and the CBA to further review and refine the budget submissions. The budget requests included in this memorandum represent senior management's collective judgment of the resources necessary to maintain the Board's current operations and continue to implement the framework's goals and objectives. Initiatives not specifically identified in the framework will be considered in a second phase of the budget approval process as described later in this memo.

The operating budget (including strategic initiatives and proposed savings) represents a 4.3 percent increase over the 2013 operating plan; the single-year capital budget represents a 59.6 percent decrease in single-year capital funds (see table 1). The multi-year capital budget represents an 18.9 percent increase over 2013 and includes funding for the Martin building renovation and the data center relocation projects, as well as various infrastructure enhancements.

Current Services Budget

The proposed operating budget of \$584.22 million includes \$579.25 million to fund the Board's ongoing operations (the current services budget). This represents an increase from 2013 of \$19.28 million of which personnel services costs account for \$6.63 million of the growth in the base budget and increases in goods and services total \$12.65 million. (See table 2). Appendix 1 reflects the proposed 2014 operating budget by division, office, or special account; appendix 2 contains the same information by account classification.

Table 2 shows the drivers with the most significant impact on the 2014 base budget. Increases for salaries reflect the full-year impact of 65 net positions added in 2013, approximately \$7.68 million to fund the 3 percent merit increase for staff approved by the Board earlier this year, and approximately \$2.82 million to fund other personnel-related actions currently being reviewed by the Board.

Table 2. Board base budget drivers by account
Dollars in millions

Accounting classification	2014 Budget
Salaries-Board	9.18
Benefits	-2.55
Subtotal salaries and benefits	6.63
Software-Expense	4.99
Furniture & Equip	4.42
Depreciation/Amortization	3.56
Rentals	3.41
Contractual Profess Srvc	-5.97
Other	2.24
Subtotal goods and services	12.65
Total increase in base budget	19.28

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

Software costs increased due mainly to higher application maintenance fees in the Division of Information Technology (IT). The increases in furniture and equipment, depreciation, and rentals are almost exclusively due to the Martin building renovation and data center relocation framework projects. The Contractual Professional Services (CPS) account is lower in 2014 because the triennial Survey of Consumer Finances,

which was funded in the 2013 budget, is not included in the 2014 budget request. The \$11.38 million reduction associated with the survey is offset by increases in the CPS account in many divisions and offices, primarily for vendor rate increases on existing technology contracts and consulting support for Boardwide and division projects such as performance management.

As part of the budget formulation process, every division and office was asked to thoroughly review its proposed budget and identify areas where potential savings could be realized; these reductions were incorporated into the divisions' base budgets and are reflected in the "Base Budget" column in appendices 1 and 2. Two divisions, IT and the Office of Board Members (BDM), also submitted initiatives with cost savings. These savings initiatives, which have been included in the divisions' final budgets, are discussed more fully in the next section.

Initiatives

Consistent with the 2013 budget process, the ECB reviewed and discussed all of the initiatives submitted by divisions and offices. Of the 35 initiatives submitted, funding for 9 was clearly described in the framework and is thus included in this budget request for 2014. The majority of these initiatives are for personnel to support implementation of strategic theme 1 (continue building a robust infrastructure for regulation, supervision, and monitoring risks to financial stability) and theme 2 (redesign data governance and management processes to enhance the Board's data environment). Savings initiatives submitted by IT and BDM are also included in the 2014 budget request, consistent with theme 6 (establish a cost reduction approach and a budgetary growth target that maintains an effective and efficient use of financial resources). Specifically, IT identified ten contractor positions that the division can convert to regular staff positions for a partial-year savings of approximately \$0.36 million in 2014 and approximately \$0.67 million of savings in 2015. BDM completed a comprehensive review of the services offered through the Print Shop, and the division was able to identify \$0.26 million in annual savings achieved by downsizing operations. The 2014 operating budget also includes an initiative to provide funding for officer and staff equity adjustments, and the capital budget, as outlined in table 4, includes several initiatives related to infrastructure enhancements and HR automation.³ Appendix 3 contains a complete list of initiatives included in the budget and reflects the strategic theme that the initiative supports.

Initiatives submitted by divisions and offices that were not specifically identified in the framework will follow a different approval process and are not included in this 2014 budget request. Although the ECB considered the remaining initiatives to have merit, the directors were unable to identify funding either within the requesting division or elsewhere at the Board to offset the budgetary increase. For example, the COO submitted an initiative for data platforms for the newly created Office of the Chief Data Officer. Although the framework recognizes that data requirements are likely to increase over the strategic planning horizon, the framework does not contain specific funding for data-related activities outside of the positions needed to support the data governance activities. Other initiatives related to, but not specifically funded in, the framework include technology requirements in the Division of Banking Supervision and Regulation (BS&R) and positions in Division of Reserve Bank Operations and Payment Systems (RBOPS) to support the Board's oversight of financial market utilities. Because of the

³ Equity funding for officers is contingent on the federal salary freeze being lifted.

significant potential impact of these initiatives on the 2014 operating budget (approximately \$8.69 million), the CBA determined that the Board could separately review these initiatives, either individually or in logical groups.

Positions

The 2014 initiatives include requests to increase staffing by 76 positions. The increase brings the Board's total authorized position count to 2,609. This represents a 3.0 percent increase over

current total authorized positions. The requested positions are consistent with the approved framework and are primarily in support of the Board's new financial stability and supervisory mandate under the Dodd-Frank Act. Forty-nine of the requested positions, representing 64.5 percent of the total increase, are in the economics divisions, BS&R, RBOPS, and the Legal Divisions. These positions will help the Board to continue building the infrastructure

Division, office, or special account	Authorized positions as of 12/31/2013	2014 Positions requested	Total authorized and requested positions	Percent change 2013-2014
Board Members	116	-	116	0.0%
Secretary	53	-	53	0.0%
Research and Statistics	327	9	336	2.8%
International Finance	136	9	145	6.6%
Monetary Affairs	141	10	151	7.1%
Financial Stability Policy and Research	34	3	37	8.8%
Banking Supervision and Regulation	412	11	423	2.7%
Consumer and Community Affairs	103	-	103	0.0%
Legal	105	5	110	4.8%
Chief Operating Officer	42	17	59	40.5%
Financial Management	68	-	68	0.0%
Reserve Bank Ops and Payment Systems	156	2	158	1.3%
Information Technology ¹	399	10	409	2.5%
Management	441	-	441	0.0%
Total Board operations ²	2,533	76	2,609	3.0%

Note: Inters are not included in the numbers for positions or employment.
¹ The increase in positions for Information Technology is offset by a corresponding decrease in the number of contractor ANP, resulting in net cost savings to the Board.
² Current 2013 opplan positions are net of reductions approved in 2013.

envisioned in strategic theme 1 using an interdisciplinary approach that combines the skills of economists, legal experts, quantitative analysts, and regulatory experts. Seventeen positions are in the Office of the COO to support the design of the data governance and management processes noted in strategic theme 2. The remaining ten positions are part of an overall savings initiative submitted by IT to convert ten contractor positions to regular staff positions. With the approval of this budget request, the Board will have authorized 164 of the 192 total positions included in the framework, including all of the positions supporting theme 2.

Table 3 shows the current and requested positions by division, office, or special account. A listing of requested positions for each initiative can be found in appendix 3.

Capital Budget

The Board's capital budget consists of single-year and multi-year components. Single-year capital projects, such as hardware purchases and software application upgrades, are planned for completion within the current budget cycle; multi-year capital projects, such as building renovations, span several budget cycles including prior years.

The proposed 2014 single-year capital budget of \$4.37 million provides funding for routine equipment and software replacements, as well as funding for BDM to purchase additional digital media equipment, upgrade the Protective Services Unit command post, and construct a virtual studio in the additional leased office space during the Martin building renovation. (See table 4.) This represents a

decrease of \$6.46 million from the 2013 single-year capital budget. The primary reason for the decrease, as described in more detail below, is the conversion of single-cycle routine capital funding for hardware and software acquisitions to multi-year funds in support of the data center relocation project.

Table 5 summarizes the Board's multi-year capital projects. The two largest projects, the data center relocation and the Martin building renovation, were included in the framework and the funding reflected in table 5 is consistent with the framework's budgetary envelope. These projects began in 2013 and will continue for the next several years. Construction has begun on the new data center at the Baltimore Branch of the Richmond Reserve Bank, and the funding for construction was approved as part of the framework. The increase in the multi-cycle budget for this project is for hardware and software acquisitions over a ten-year horizon.⁴ Establishing a multi-cycle budget for these procurements will provide flexibility to IT and R&S to better plan for the capital acquisitions required for the new facility in Baltimore, maintain existing operations during the transition, and establish a "point of presence" after the relocation is complete. The increase in the multi-cycle budget for the Martin building renovation is for the design and build of additional leased swing space at 1801 K Street. Despite the increase, the total project spend will remain within the total project amount approved by the Board. Capital costs for automation support of the human resources function will continue into 2014 and are specifically included within theme 4 of the framework.

⁴ The task force established by the Board to identify options for addressing concerns related to the data center and to forecast future requirements developed a cost projection covering a ten-year operating cycle. The capital component of the data center relocation project is being established for a ten-year horizon to more accurately measure implementation of the task force's recommendations against the projected cost baseline.

Division, office, or special account	2014		
	Objective	Initiatives	Adjusted objective
Board Members	-	0.52	0.52
Secretary	0.03	-	0.03
Research and Statistics	-	-	-
International Finance	-	-	-
Monetary Affairs	-	-	-
Financial Stability Policy and Research	-	-	-
Banking Supervision and Regulation	-	-	-
Consumer and Community Affairs	0.07	-	0.07
Legal	-	-	-
Chief Operating Officer	-	-	-
Financial Management	-	-	-
Reserve Bank Operations and Payment System	-	-	-
Information Technology	1.44	-	1.44
Management	2.31	-	2.31
Extraordinary Items	-	-	-
Total Board operations	3.85	0.52	4.37

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

Table 5 also reflects two new multi-year projects needed for infrastructure upgrades to the Eccles building. One project will establish the proper space and utilities requirements for network support in the building. The other project will address deficiencies in the building's mechanical systems. Although these projects were not specifically included in the framework, they are not expected to have an impact on the Board's operating budget over the current strategic planning horizon.

Projects	Project start through September 30, 2013				2014	
	Project life budget	Total expenditures	Remaining	Percent spent	Initiatives	New project life budget
NYA Reconfiguration ¹	25.17	10.52	14.65	41.8%	-	26.22
NYA Infrastructure Upgrades ¹	1.05	0.06	0.99	5.3%	-	-
International Square	17.54	13.28	4.27	75.7%	-	17.54
Martin Building Renovation	240.33	5.51	234.82	2.3%	3.67	244.00
Eccles Switchgear Replacement	8.9	7.54	1.36	84.7%	-	8.90
Data Center Renovation	7.02	6.46	0.56	92.1%	-	7.02
Law Enforcement Training Center ²	5.99	5.06	0.92	84.6%	-	-
Eccles Window Upgrades	5.34	2.09	3.25	39.1%	-	5.34
C St. Barriers	1.5	0.07	1.43	4.9%	-	1.50
Warehouse Space ²	2.09	1.92	0.18	91.6%	-	-
NYA Perimeter Security ²	1.91	1.8	0.11	94.3%	-	-
eOPF ²	0.81	0.51	0.3	63.3%	-	-
Eccles IT Mechanical Upgrades ²	0.4	0	0.4	0.0%	-	-
HR Strategic Automation	1.76	0.94	0.82	53.4%	2.95	4.71
Data Center Relocation	34.8	0.98	33.82	2.8%	48.61	83.40
Eccles IT Closets	-	-	-	0.54	0.54
Eccles Mechanical Upgrades	-	-	-	9.00	9.00
Total Board operations	354.59	56.73	297.86	16.0%	64.77	408.16

Note: Components may not sum to totals shown because of rounding.
¹ For 2014, these projects will be merged together as the NYA Reconfiguration project.
² Projects will be retired at the close of the fourth quarter 2013.

Budget Considerations

When the Board approved the framework, the governors recognized the resources necessary to implement the strategic themes, as well as budgetary growth targets to manage costs. The requests included in this memorandum align with the guidelines contained in the framework and place the Board on a trajectory to meet the cost reduction targets described in the framework.

The 2014 budget remains largely consistent with risks identified during prior years. In particular, the Board's ability to attract, retain, and engage qualified staff and continue to meet the demands of the increased work requirements remains a top priority.

Over the next few years, significant investments in the Board data environment will be required. Past budget cycles have included significant requests for additional data in support of supervisory activities and additional infrastructure investments (separate from costs already budgeted for the data center relocation). As noted in the framework, establishing an infrastructure to share data and improve opportunities for data integration is necessary to expand the Board's research and analytical capabilities and provide staff with the new tools necessary to obtain, interpret, and analyze large volumes of data required by the new supervisory tools. As the initiatives put forward as part of the 2014 budget process indicate, funding the new infrastructure will place upward pressure on the operating budget.

As part of the framework, the Board approved its two largest capital projects in recent years – the renovation of the Martin building and the relocation of the data center. Although the Board has retained consultants to assist in these efforts and has capable staff with experience dealing with complex projects, both initiatives continue to require careful monitoring given the size of their budgets, critical importance, and continued public focus on Board operations.

Appendix 1. Board operating budget by division, office, or special account
Dollars in millions

Division, office, or special account	2013 OpPlan	2014 Base Budget	2014 Initiatives	2014 Budget
Board Members	26.85	26.72	(0.23)	26.49
Secretary	9.34	9.65	-	9.65
Research and Statistics	62.48	61.17	0.55	61.71
International Finance	24.96	26.36	0.66	27.02
Monetary Affairs	30.77	31.36	0.90	32.26
Financial Stability Policy and Research	4.91	6.77	0.21	6.99
Bank Supervision and Regulation	100.25	106.49	-	106.49
Consumer and Community Affairs	24.14	24.54	-	24.54
Legal	22.66	23.64	0.62	24.26
Chief Operating Officer ¹	4.76	8.34	1.83	10.17
Division of Financial Management	9.59	10.25	-	10.25
Reserve Bank Operations and Payment Systems	33.91	34.60	0.11	34.71
Information Technology	82.38	93.81	(0.36)	93.45
Management	110.38	111.57	0.10	111.67
Data Processing Income	(36.72)	(36.74)	-	(36.74)
Residual Retirement ²	14.68	9.87	-	9.87
Special Projects ³	16.64	13.05	0.59	13.64
Savings and Reallocations	1.93	-	-	-
Extraordinary Items ⁴	16.04	17.80	-	17.80
Total Board operations	559.96	579.25	4.97	584.22

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

¹ The COO budget reflects the transfer of two sections from R&S.

² The Operating Plan for Residual Retirement is based on historical budget performance, and changes in the interest rates used by the actuaries when valuing year-end liabilities may result in large variances between actual and budgeted expenses.

³ Special Projects includes accrued annual leave, employee relocation, academic assistance, and transportation subsidy.

⁴ Extraordinary Items includes amounts budgeted and expensed for the Martin Building Renovation and Data Center Relocation strategic framework projects, as well as the Survey of Consumer Finance (conducted every three years).

Appendix 2. Board operating budget by accounting classification

Dollars in millions

Accounting classification	2013 OpPlan	2014 Base Budget	2014 Initiatives	2014 Budget
Salaries-Board	313.96	323.14	4.82	327.97
Retirement/Thrift Plans	43.48	41.75	0.45	42.19
Employee Insurance	29.05	28.24	0.31	28.55
Subtotal salaries and benefits	386.50	393.13	5.57	398.71
Postage & Shipping	0.66	0.54	-	0.54
Travel Expenses	14.23	14.91	0.17	15.09
Telecommunications	7.44	7.91	-	7.91
Printing & Binding	2.41	2.37	(0.21)	2.16
Publications	0.64	0.64	-	0.64
Stationery & Suppls	1.56	2.32	-	2.32
Software-Expense	12.05	17.04	0.06	17.10
Furniture & Equip	9.70	14.12	0.15	14.27
Rentals	12.76	16.16	-	16.16
Books & Subscriptions	1.14	1.25	0.06	1.30
Utilities	3.90	3.61	-	3.61
Repairs & Alterations Bldg	2.99	3.00	-	3.00
Repairs & Maintenance F&E	2.94	3.29	-	3.29
ARC Expenses/R&S	0.96	0.96	-	0.96
ARC Income/R&S	(0.96)	(0.96)	-	(0.96)
CPC Expenses	1.35	1.33	-	1.33
Contractual Profess Srvc	71.38	65.41	(0.95)	64.45
Interest Expense	0.04	0.02	(0.00)	0.01
Tuition / Regist / Members	4.80	5.03	0.05	5.08
Subsid & Contrib	0.78	0.79	-	0.79
All Other	5.37	5.10	-	5.10
Depreciation/Amortization	24.07	27.64	0.08	27.72
IT User Charge	36.44	39.91	-	39.91
IT Income	(36.72)	(40.17)	-	(40.17)
Assessment Income	-	-	-	-
Income	(6.45)	(6.10)	-	(6.10)
Subtotal goods and services	173.46	186.12	(0.60)	185.51
Total Board operations	559.96	579.25	4.97	584.22

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

Appendix 3. Summary of 2014 initiatives

Dollars in millions (where applicable)

Division	Strategic Framework Theme	Initiative Description	Operating	Capital	Positions
Research and Statistics	1	Strategic framework positions	0.55	-	9
International Finance	1	Strategic framework positions	0.66	-	9
Monetary Affairs	1	Strategic framework positions	0.90	-	10
Financial Stability Policy and Research	1	Strategic framework positions	0.21	-	3
Banking Supervision and Regulation	1	Strategic framework positions	-	-	11
Legal	1	Strategic framework positions	0.62	-	5
Chief Operating Officer	2	Strategic framework positions	1.83	-	17
Reserve Bank Ops and Payment Systems	1	Strategic framework positions	0.11	-	2
Management	4	Strategic HR Automation	0.10	2.95	-
Board Members	6	Printing equipment savings	(0.26)	-	-
Board Members		1801K Broadcast Equipment	0.01	0.37	-
Board Members		DMS Capital	0.01	0.11	-
Board Members		PSU Command Post Upgrade	0.01	0.05	-
Information Technology	6	CPS savings	(0.36)	-	10
Management		Eccles Mechanical Upgrades	-	9.00	-
Management		Eccles IT Closets	-	0.54	-
Special Projects	4	Equity pay	0.59	-	-
Extraordinary Items	3	Data Center Relocation	-	48.61	-
Extraordinary Items	3	Martin Building Renovation	-	3.67	-
Total Initiatives			4.97	65.29	76

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