BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
MANAGEMENT DIVISION

DATE: August 31, 1999

TO: Board of Governors

VIA: Mr. Stephen R. Malphrus and Governor Roger W. Ferguson, Jr.

FROM: Carol A. Sanders and Stephen J. Clark

SUBJECT: 2000 – 2001 Proposed Budget

ACTIONS REQUESTED

Approval of the 2000–2001 Board Operating, Capital, and Extraordinary Items budgets as itemized below:

1. An operating budget of $387.6 million. This figure represents an operating budget increase of 4.9 percent annually, or $35.4 million for the biennium. The budget includes 1,705 positions. Compared with the 1998–99 approved budget, this is a net decrease of sixteen positions, primarily in support-related areas. [1]

2. A capital budget of $23.8 million, including $12.0 million for regular operations and $11.8 million for the continuation of the Eccles Building Infrastructure Enhancements Project (see page 7).

3. An extraordinary items budget of $7.8 million for two survey projects and the close-out of the century-date compliance project. Although Board staff are needed to support these projects, no positions are included in the Extraordinary Items budget (see page 8).

4. Approval for the Administrative Governor to adjust the operating and capital budgets during 2000–2001 to reflect the accounting change recently adopted by the Board to capitalize certain software developed or acquired for internal use. We project that during the budget period, approximately $8.1 million will need to be added to the capital budget and $7.0 million cut from the operating budget to reflect this change. The $1.1 million difference in the amounts reflects the amortization costs that will begin during the period for completed projects.

[1] These figures do not include funding or positions for the Office of Inspector General. Summary cost and position data have also been provided separately in this document in order to illustrate the combined effect of all budget segments. There are 25 positions in the Division of Information Technology that provide fully reimbursable support to the FFIEC for compiling data related to the HMDA and CRA; these are included in the total of 1,705.

Summary of 2000–2001 Budget Requests	Operations Budget	Extraordinary Items	Office of Inspector General
Proposed 2000–2001 Operating Budget	$387,611,318	$ 7,846,760	$6,577,806
Proposed 2000–2001 Capital Budget	$23,761,237	$0	$10,000
Requested 2000–2001 Positions	1,705	0	29

For Information Only: The Office of Inspector General (OIG) requests an operating budget of $6.6 million and 29 positions. This represents an increase of $0.2 million, or 1.2 percent. The OIG also requests $10,000 in capital. The Inspector General will present his budget separately from the Board's budget.

OVERVIEW OF THE BUDGET

Process

On a biennial basis, the Board and its staff undertake a process that includes strategic planning for the next four years and formulation of a budget for the next two years. For the 2000–2003 planning period and the 2000–2001 budget period, the Committee on Board Affairs, assisted by a senior-level Staff Planning Group (SPG), guided the process[2]. Each division director, working with his or her oversight committee, examined the division's operations to see how the mission, organization, and resources needed to be adjusted to enable the Board to carry out its mission more efficiently and effectively. The process reaffirmed the Board's mission, readjusted priorities to accomplish the mission, and identified important but lower priority work to eliminate in order to fund some of the needed programmatic increases (see page 6).

Planning

The planning materials prepared by the division directors were reviewed by the SPG. Overarching issues were identified and used in shaping resource decisions reflected in the recommended budget objective. These issues include the following:

- Mission and goals: The Board's mission is unchanged, but the factors listed below affect priorities, the way the Board operates, and the resources required.
- Human resources and Board organization: These critical areas affect operations through compensation that attracts, rewards, and retains staff; management succession; professional development; and coordination of employee skill sets to stay abreast of growing complexity in operations and of improvements in technology.
- Financial industry restructuring: We must focus our response to changing circumstances in the financial industry; the increasing concentration of financial institutions; and the growing

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[2] Members of the Staff Planning Group included Steve Malphrus (Chair), Jennifer Johnson, Bill Jones, Brian Madigan, Herb Biern, Marsha Reidhill, Glenn Loney, Don Spicer, and Steve Clark.

importance of international financial activity to the Board's mission (because of the uncertain nature of the outcome, no major adjustments are included in this budget for financial reform legislation).

- Assistance and support to foreign governments, central banks, and international organizations: These activities continue to grow in importance, requiring a greater commitment of resources, and making heavier demands on the time of key staff.
- Technology investments: Up-to-date and fully functioning technology remains critical to maintaining efficient operations, implementing appropriate monetary policy decisions in an increasingly complex environment, and identifying supervisory risks in the financial sector and the actions needed to limit them.
- Communications with the public: We need to take advantage of technology, particularly the web, to provide materials to the public that explain Board actions, policies, and objectives, and to provide available data useful for research and public policy debates.
- Facilities: We must maintain safe facilities that foster efficient operations, continue to make necessary repairs to the Eccles Building, which is now more than sixty years old, and devise a strategy to reduce the long-term cost of space for the Board staff.

In the course of planning, divisions identified a number of areas in which they anticipated the need for increased resources over the next four years. Though many areas for investment were worthwhile, the Committee on Board Affairs focused on initiatives related to these overarching issues. For example, nearly three-fourths of the recommended increment is sought for human resources issues such as a larger pool for cash awards, a placeholder for the 2000 and 2001 merit increases, promotions and other salary adjustments, a reduced number of vacant positions, and increased training.

Board Operations

The budget request is consistent with the budget objective approved by the Board on July 7. It reflects difficult decisions affecting current operations, provides additional resources where operations need to respond to changes in the financial environment, and supports key Board efforts to continue to attract and retain the first-rate staff needed to accomplish our mission.

The budget reflects continued pressure to keep pace with rapid and significant changes in the national economy and the world financial system. Technological change, which increases the risks to the economy and provides the tools to understand and limit those risks, is profoundly affecting the skill sets of staff, the automation and communication systems, and the workload of the Board. The budget also reflects the Board's efforts to ensure that consumers are treated fairly as the financial system changes and to improve the efficiency of Reserve Bank oversight.

These changes require additional resources; hence, the budget seeks an increase that averages 4.9 percent a year. The increase is largely for personnel costs, which account for nearly three-fourths of the Board's operating budget, and investments in technology, such as the Banking Organization National Desktop (BOND) Project, needed to operate effectively and efficiently.

Extraordinary Items

Inclusion of certain periodic or one-time expenses in the Board's operations budget can result in undue volatility in the size of the budget. Therefore, funds for such extraordinary items are set apart from the operations budget. For 2000–2001, $7.8 million in operating funds have been budgeted for three extraordinary items: two major economic surveys and final reports and closeout efforts to modify or replace software to ensure its operation after the century-date change (CDC). These projects are discussed in detail on page 8. Because the CDC efforts will decrease sharply, this budget is approximately $15.2 million less than in the current period.

Office of Inspector General

The 2000–2001 budget of $6.6 million for the OIG is not included in this budget. The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's operating budget. In conformance with the statutory independence of the office, the OIG presents its budget directly to the Chairman of the Board of Governors for consideration by the Board.

HIGHLIGHTS OF THE BUDGET

General

The proposed budget represents an increase of $35.4 million over the 1998–99 approved operating plan, an average increase of 4.9 percent per year. The discussion below highlights the major components of this increase as well as the primary offsetting decreases.

The largest force driving the increase in the proposed budget is personnel related. The total number of positions is decreasing by sixteen from the current period; however, positions eliminated by technology improvements tend to be less costly than those added to meet the changes outlined in the overarching issues. The placeholders included in the budget for merit increases for the upcoming biennium are significantly higher than those included as placeholders in the current biennium (4.4 percent and 4.0 percent in 2000 and 2001 compared with 3.8 percent and 3.5 percent in 1998 and 1999 respectively).[3] These higher placeholders are in recognition of the need to keep the Board's salary structure properly aligned with appropriate labor markets. Higher grade levels, which reflect the market salaries for skill sets needed for more complex operations and special salary adjustments in critical professions, such as financial economists, are also affecting personnel costs. These increases also affect the benefit-related expenses that are tied to salary levels, such as the thrift plan and social security. Finally, a one-time saving that occurred in 1999 from the buyout of the retiree health insurance and the transfer of those individuals to the Federal Employees Health Benefit Program accounts for a portion of the increase. Coupled with higher compensation packages designed to attract and retain the best

[3] The actual merit increases in 1998 and 1999 were 3.8 percent and 4.2 percent respectively. Savings from a higher number of vacant positions offset the added cost of the higher merit payments.

staff with the high-level skills needed for the Board's responsibilities, increased personnel services account for $25.9 million, or 73.3 percent of the total increase.

The increase in goods and services costs, $9.4 million, is largely due to increased operational expenses related to a number of projects. First, an additional $3.0 million, or 8.5 percent of the total increase, funds further implementation of the Banking Organization National Desktop (BOND) project. Second, rental expenses associated with the Eccles Building Infrastructure Enhancement Project are increasing by $1.3 million, or 3.7 percent of the overall increase. Finally, contractual expenses largely related to the pent-up demand for IT services, restrained by Year 2000 policy decisions and the priority assigned our software remediation activities, are requiring additional resources in the amount of $4.8 million. The remainder of the increase is associated with rate and volume adjustments.

There are two major offsets to these increases. Programmatic reductions worth $2.2 million were made to allow added investment to support the overarching issues identified in planning. Depreciation expense declined $2.9 million because of the change in the Board's capitalization policy that took affect on January 1, 1998. Other, smaller decreases occur from changes in operations. For example, mailing costs are declining because of our improved ability to disseminate information to constituent groups through electronic distribution of documents and our expanded web site.

Risk Areas

Division directors have assessed areas for possible developments during the upcoming biennium period, which could require significant resources beyond the current proposals. These areas, which are noted here for informative purposes, include:

- changes resulting from eventual passage of a financial modernization bill
- additional compensation issues affecting some job families where current packages do not seem to be competitive in the job market
- changes to the position vacancy rates used in developing the proposed salary budget and the resulting facility requirements should a change in staffing patterns occur; or
- a sharp increase in the rate at which financial innovations occur.

OPERATIONS BUDGET BY DIVISION AND ACCOUNT CLASSIFICATION

The Board's overall operations budget is detailed by division in table I and by account classification in table II. The number of authorized staff positions for Board operations is shown in table IV. The largest increase in the 2000–2001 budget is in the area of personnel services. The proposed budget for personnel services (salaries, retirement, and insurance) is $25.9 million (average of 4.9 percent a year increase) greater than the 1998–1999 budget. As the number of authorized positions is actually declining by sixteen during this period, this dollar increase is due to higher compensation levels necessary to attract and retain the highly skilled staff required by the Board.

The 2000–2001 budget for goods and services is $9.4 million, also 4.9 percent each year, greater than the 1998–99 budget. Much of the increase in the area of goods and services is attributable to a $4.8 million, or an average of 9.8 percent per year, increase in contractual professional services associated with the cafeteria services, additional economic data, technical assistance with the Daylight Overdraft Reporting and Pricing System, and contractual support for various information technology initiatives. Increases in programming efforts on the BOND project account for $3.0 million.

Partially offsetting these increases are programmatic reductions in various areas throughout the Board. These include specialized activities in the Division of Banking Supervision and Regulation, cafeteria services, streamlined operations in the Management Division, attrition in the Office of the Secretary, and administrative reductions in the Information Technology Division. Savings in support related areas include reduced postage and shipping expenses due to increased use of the Internet and Intranet for information sharing, lower depreciation costs following the 1998 raising of the capitalization threshold, and increased income from other government agencies and Reserve Banks for information technology services.

OPERATIONS BUDGET BY OPERATIONAL AREA

The Board's operations budget supports four broadly defined areas of operation: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and System policy direction and oversight. Data on budget and positions for each operational area for 2000–2001 are discussed below.

Monetary and Economic Policy

The 2000–2001 budget for monetary and economic policy is $163.9 million, an increase of $12.2 million, or an average of 3.9 percent a year. Activities in this operational area include the Board's monitoring and analysis of developments in the money and credit markets, the setting of reserve requirements, the approval of changes in the discount rate, and other activities related to managing the nation's monetary policy. The entire increase is associated with higher costs of personnel, including the addition of four positions in the Division of International Finance to meet the expanding need for risk assessment and analysis.

Beyond the increase tied to personnel services, there are initiatives tied to the increased collection of data related to developments in financial markets; the obtaining of a better understanding of embodied technological change; the expansion of the sectoral productivity database; and the further assessment of credit bureau data in the Division of Research and Statistics. These are all funded by reductions, primarily in automation support.

Supervision and Regulation

The 2000–2001 budget for supervision and regulation is $148.8 million, an increase of $19.2 million, or an average of 7.2 percent per year. Activities in this area include working with other federal and state financial authorities to ensure safety and soundness in the operation of financial institutions, stability in the financial markets, and fair and equitable treatment of consumers in their financial transactions. Supervisory activities such as monitoring, inspecting, and examining banking organizations on a continuous basis to assess their condition and their compliance with relevant laws and regulations are enhanced by the budget as described below.

The percentage increase for this operational area is greater than the percentage for the overall budget. Besides the normal factors affecting compensation in each of the operational areas, new work approved in the current budget period, such as the Banking Organization National Desktop (BOND) Project in the Division of Banking Supervision and Regulation, is having a significant effect. This project will assist in making the supervisory process more efficient and effective. Processing applications will be enhanced through investment in the Application Information System. This operational area has also been successful in filling many positions that were vacant for long periods in 1998 following the voluntary retirement incentive program. It has been able to do so in part because of substantial salary increases within key job families to improve retention and assist with recruiting. Thus, in the Division of Banking Supervision and Regulation, the vacancy rate has decreased. The number of positions in the Consumer Affairs area has increased, and the investment in software to better analyze CRA and HMDA data continues to be substantial.

Services to Financial Institutions and the Public

The 2000–2001 budget for oversight of Reserve Bank services to financial institutions and the public is $7.9 million, an increase of $1.0 million, or an average of 7.2 percent a year. This operational area provides support to and oversight of the Federal Reserve Banks and Branches, specifically, evaluation of the operational and pricing performance for the check-payment activities of he Reserve Banks; oversight of the electronic payments mechanism; and annual evaluation of the Federal Reserve System's currency, coin, and food coupon operations. The increase reflects new software development for managing the currency operations and a lower projected rate of vacancies in key programs analyzing payment system risk.

System Policy Direction and Oversight

The 2000–2001 budget for System policy direction and oversight is $67.0 million, an increase of $2.8 million, or an average of 2.2 percent per year more than the 1998–99 operating plan. This operational area covers oversight and direction of Board and Reserve Bank programs. It includes programs that directly support Board members in carrying out their oversight function for Reserve Bank operations, budgeting and accounting, financial examinations, audit and operations reviews, and automation and communications. Salary increases are the largest single factor in the higher costs of this area. The increase is tempered by lower costs associated with changes in oversight policy.

CAPITAL BUDGET

The Board's proposed 2000–2001 capital budget is $23.8 million, an increase of $3.8 million from the 1998–99 approved operating plan. Of this total, $12.0 million are for regular operations, an increase of $0.4 million, or 1.7 percent per year, above the 1998–99 level. This portion of the budget supports continued improvements in office automation and major upgrades to the information infrastructure, including a major cable upgrade to enhance bandwidth and communication speeds. Funds are also provided for the restoration of aging facilities such as restrooms; mail distribution and central file storage systems; heating, ventilation, and air conditioning systems; and other, smaller facility projects.

The remaining $11.8 million is for continuation of the Eccles Building Infrastructure Enhancement Project. The $3.4 million increase over expenditures in 1998–99 is due to the phased nature of the project, which began in July 1999. The project, which is extending the building's useful life and enhancing fire safety systems, replacing its voice and data cabling plant, replacing piping, and making other related repairs, is scheduled for completion in 2002.

POSITIONS

The overall position authorization for the Board is decreasing by sixteen, primarily in overhead and support areas, from the approved 1998–99 budget, to a proposed total of 1,705 positions.

Reductions in support-related areas include a significant number in Support Services due to faster-than-anticipated consolidation of the duplicating, publications, and cafeteria functions, reflecting reorganizations and changes in business practices to increase efficiency. Reductions are projected for the Divisions of Information Technology and Management as part of their planning initiatives to increase efficiency and effectiveness. Finally, small reductions in the Division of Banking Supervision and Regulation have been proposed due to shifting priorities.

These decreases are partially offset by increases in the core mission areas to include seven additional staff. Two positions are added in the Division of Research and Statistics to expand its analysis of financial markets data and to continue development of a sectoral productivity database. Four economist positions are added in the Division of International Finance to meet the expanding need for risk assessment and analysis in the monetary policy and research areas to enable the Board to keep current on the increasingly fast changes in the financial industry both domestically and abroad. A consumer affairs analyst position has been added in the Division of Consumer and Community Affairs to handle a growing volume of consumer complaints and a shift to a more risk-focused consumer compliance examination approach.

EXTRAORDINARY ITEMS

The Board's extraordinary items budget provides funds of $7.8 million for three projects.
The first, a survey of consumer finances, which will cost $5.5 million, will provide financial data for various policy analysis and monetary policy purposes. This effort reflects the Board's interest in improving the quality of economic data by obtaining information on the income, assets, debts, pensions, employment, use of financial services, savings behavior, and other characteristics of U.S. households. Cross-categorization of the data will allow important statistical observations, useful in a wide variety of economic studies.

The second project is the completion of a survey of small business finances (NSSBF), begun in 1999 for data as of year-end 1998, which will cost $1.2 million. The purpose of the survey is to gather data from small businesses on their financial relationships, credit experiences, lending terms and conditions, income and balance sheet information, location and types of financial institutions used, and other firm characteristics. The NSSBF is used in analyzing the competitive effect of bank mergers, in benchmarking other data series (such as the non-corporate sector of the flow-of-funds statistics), and in writing the quinquennial small business report mandated by Section 227 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. It is also used for research and policy analysis of a wide variety of issues in small business finances.

Last, the extraordinary items budget provides $1.2 million in operating funds to complete bringing the Board's software into compliance with the century-date change. These funds are requested for completion of system monitoring over the leap year day (February 29th); work related to the event management activities in January; and standing down test facilities and equipment for the CDC project that are no longer necessary. Over the past three years, funds for this project, which have totaled $17.6 million, have been used to remediate, test, and implement Year-2000-ready versions of the Board's information systems.

APPENDIX – SUPPLEMENTAL INFORMATION

Operations Budget by Division

Key items associated with each divisional budget are discussed below.

Office of Board Members
The major change in the office is a shifting of resources to enhance the public affairs area. During 1998–99, this area grew by three positions to handle increasing demands for both external and internal communication efforts. The proposed budget reflects this higher level of resource requirements by the program and also the savings resulting from the down sizing and movement of the functions of the Federal Reserve System Affairs Section to the Office of the Secretary and the Division of Reserve Bank Operations and Payment Systems.

Office of the Secretary
The major change in the office is a significant shift toward the electronic distribution of information. The office has reallocated resources toward development of automated systems for records, correspondence, and the solicitation of public comments on proposals. These efforts will require significant changes in the way the division functions day to day; consequently, the budget includes additional training resources to prepare staff for these changes. The proposed budget also reflects the addition of the Reserve Bank director responsibilities transferred from the Office of Board Members during the 1998–99 biennium.

Division of Research and Statistics
The division, in accordance with its approved plan, has reallocated resources to support four new initiatives: increasing data collection related to developments in financial markets; obtaining a better understanding of embodied technological change; expanding the sectoral productivity database; and further assessing credit bureau data. These initiatives are offset primarily by reductions in central IT labor and mainframe costs associated with the collection and maintenance of large, detailed databases on thrift institutions. The division has also reallocated IT resources to focus on an extensive rewrite of its archival system of historical microstatistical data.

Division of International Finance
The division, in accordance with its approved plan, has added four new positions over the current level, bringing the total of new positions since the approval of the 1998–99 budget to five. These new positions will partially accommodate the increased immediate workload of the division, allowing for some staff to return to longer-range, larger studies. The division has also reallocated resources toward increased international travel and higher conference and seminar attendance. This will enable staff to better develop personal relationships with counterparts in other countries and keep their skills and knowledge current with industry advances. The division has also reallocated resources to increase the amount of raw economic data purchased from outside vendors.

Division of Monetary Affairs

Division management is of the opinion that the level and the distribution of resources in Monetary Affairs are appropriate to fulfill its mission. The current mission both accurately reflects the work of the division and addresses the challenges likely to confront the division in the foreseeable future. In the planning process, division management identified areas of research concentration for the division over the next four years to continue to fulfill its mission.

Division of Banking Supervision and Regulation

The two most significant changes to the division's budget are (1) the addition of resources for the second and third years of development efforts on the BOND project and (2) the inclusion of income related to the National Information Center (NIC) previously housed in the Special Projects portion of the Board's budget. The division's proposed budget also redirects resources toward systemwide development of technology, increased participation in the Basel Supervisors Committee, and increased technical advice to foreign governments. Other changes include a reduction in authorized positions as per the guidance from the Committee on Board Affairs and funding for a significantly reduced number of vacancies reflecting recent success in filling positions. Excluding income in order to present the data on a consistent basis, the division's budget increase on an annual basis is 5.7 percent.

Division of Consumer and Community Affairs

Although the division is not significantly changing its operations or focus, a number of factors are driving significant increases in its budget. These factors include increasing industry consolidation and mega-mergers, continued interest in the Community Reinvestment Act (CRA), continuing interagency efforts to coordinate CRA implementation, and a regrading of four job families.

Legal Division

In order to continue to meet the demands placed on it without requesting additional positions, the division has reassigned existing resources to handle an increased workload of internal issues. This has been possible to a large extent because of the continuing health of the financial system and because financial services modernization legislation has not yet passed. The division's overall budgetary resources are not changing significantly from the level of 1998-99. This is indicative of a steady workload and of the number of unfilled positions.

Division of Reserve Bank Operations and Payment Systems

The budget incorporates a continuing redirection of the division oversight strategy for Reserve Banks. The change is designed to focus more on areas of high risk and strategic significance to the Board, assess risk across Reserve Banks as well as within a Reserve Bank, improve dissemination of best practices, and better integrate the various elements of the division's oversight program.

Office of the Staff Director for Management

The Office of the Staff Director for Management is responsible for overseeing the overall management and administration of the Board of Governors. The Office of the Staff Director for Management is responsible for the operations of the Management, Support Services, and Information Technology Divisions. The mission of the office has not changed; however, the resources assigned to the office have been greatly reduced through the streamlining of the administrative operations.

Division of Support Services

The division is continuing efforts to improve efficiency and thereby is reducing resource requirements in some operational areas, such as duplicating, mail services, and the cafeteria. The proposed budget reflects these ongoing initiatives, as well as a substantial increase for the annualization of the space rental costs associated with the Eccles Building Infrastructure Enhancement Project. Reallocations in the division's budget support greater automation to improve productivity in the maintenance and supply areas, increases in utility usage and a possible water rate hike, and substantial depreciation increases due to the Eccles project. The division has also reallocated funds to support continued repairs and life-cycle-related investments in the physical plant beyond the Eccles project. These noncapital projects include repairs to the Eccles Building windows; the steps and driveways at various entrances; the Eccles Building fountains; Kelly Park lighting; the Martin Building podium-level window system; the marble steps and retaining walls around the Eccles Building (phase 1 of 4); the refurbishment of the Martin Building terrace level lobby and dining rooms; and numerous other smaller projects.

Division of Information Technology

The budget of the Information Technology Division supports the *IT Strategic Plan 1999–2003* developed in conjunction with the Data Processing Advisory Group. The budget provides staff and contractor support to deal with normal software development requirements, major projects such as BOND, and pent-up demand from work displaced by the Y2K preparations. Funding is provided for equipment upgrades to keep pace with technological change, upgraded cabling for faster data transmission, and other equipment needed for expanded real-time information sharing with other federal, state, and international regulators. To improve efficiency, simplification of the User Charge System is planned. To reduce costs the PC loaner program will be terminated.

Management Division

The division's proposed budget includes substantial increases to cover resources added during the current budget and some initiatives to improve the quality of human resources support to the Board. The changes in the current budget include additional staff resources in the automation area and recruiting. Resources in the budget include added legal support for human resources activities, improvements to records management, and increased training.

Publications Committee

The committee is reallocating resources away from actual printing services and toward providing services via the Internet. The result is increased efficiency in delivering a substantially greater volume of material to the public. The increased volume results in a more substantial demand for editorial support to prepare documents for the Web and a decline in costs to print, store, and mail hard copy documents.

Operations Budget by Account Classification

A brief discussion of each account classification with major changes between budget periods follows:

Travel (3.4 percent per year increase)
Major factors include price increases, increased foreign activities associated with supervision, assistance to foreign governments, anticipated relocation costs associated with actions to centralize at the Board ongoing oversight of Reserve Banks, and increased use of the System interchange program. These increases are partially offset by reductions in travel by field staff associated with the change affecting Reserve Bank oversight and greater use of teleconferencing.

Postage and Shipping (9.7 percent per year decrease)
Postage and fees are declining because of greater use of the web to distribute a much larger volume of material on a more timely basis.

Telecommunications (6.0 percent per year increase)
A major increase in costs associated with growth in the volume of data (primarily supervision associated with BOND) sent over the Federal Reserve Communications Network is partially offset by reductions in long-distance rates.

Printing and Binding (6.9 percent per year increase)
Reductions in general printing are more than offset by a significant increase in the cost associated with continued volume increases in the volume of photocopying.

Cafeteria (5.3 percent per year decrease)
Reductions in food and supply costs are due to a major contract with a large food-distributing provider.

Non-capital Furniture and Equipment (3.2 percent per year increase)
An adjustment in the automation architecture in the Divisions of Monetary Affairs and Research and Statistics is leading to increased costs in this account. It is also affected by falling prices for some equipment that formerly was capitalized.

Space Rentals (7.7 percent per year increase)
Total space rental costs are now approaching $10 million with the additional cost of $1.3 million during the period for swing space during the Eccles project.

Repairs and Alterations (7.5 percent per year increase)
The substantial increase is tied to life-cycle replacement and improvements to the Board’s physical plant. These non-capital projects include repairs to the Eccles Building windows; the steps and driveways at various entrances; the Eccles Building fountains; Kelly Park lighting; the Martin Building podium-level window system; and the marble steps and

retaining walls around the Eccles Building (phase 1 of 4). The refurbishment of the Martin Building terrace level lobby and dining rooms and numerous other smaller projects add to the costs.

<u>Repairs and Maintenance</u> (7.4 percent per year increase)
The substantial increase is tied to higher support costs because of upgrades to the Board's mainframe computing systems in the current budget period.

<u>Contractual Professional Services</u> (9.8 percent per year increase)
Greater requirements for contractual professional services support are increasing to assist the Division of Information Technology deal with pent-up demand from the completion of our Year 2000 work is responsible for $1.8 million of the increase. New projects and more reliance by the research divisions on data purchases from commercial sources is responsible for $1.0 million of the increase. Contracting for cafeteria support results in a $0.7 million increase. The Board's share of the Daylight Overdraft Reporting and Pricing System (DORPS) increases by $0.6 million. Smaller adjustments account for the remainder of the increase.

<u>Tuition / Registration / Membership</u> (6.6 percent per year increase)
Enhanced training requirements throughout the Board.

<u>All Other</u> (15.0 percent per year decrease)
The reduction in this category is due to a $1.0 million increase in miscellaneous reimbursements in Special Projects.

<u>Depreciation</u> (7.3 percent per year decrease)
Offsetting a portion of the major reductions in equipment depreciation Boardwide that are due to the change in the capitalization threshold during 1998 is a substantial increase in depreciation for facilities. The accounting change and the depreciation on completed phases of the Eccles Project are increasing depreciation costs for facilities.

<u>IRM User Charge</u> (8.3 percent per year increase)
The major increase tied to the BOND project is only partially offset by reductions in Monetary Affairs. Other smaller increases include additional resources for Reserve Bank Operations, Special Projects, and the Publications Committee.

	Division	Approved Opplan 1998-1999	Requested Funding 2000 - 2001	Difference 00/01-98/99	Annual % Change 00/01-98/99
01	Office of Board Members	8,792,762	8,465,887	-326,875	-1.9%
02	Office of the Secretary	8,708,632	9,390,730	682,098	3.8%
21	Division of Research & Statistics	58,445,750	60,317,674	1,871,924	1.6%
22	Division of International Finance	21,064,810	22,712,437	1,647,627	3.8%
23	Division of Monetary Affairs	18,394,610	19,871,276	1,476,666	3.9%
41	Division of Banking Supervision & Regulation	55,938,823	58,709,927	2,771,104	2.4%
42	Division of Consumer & Community Affairs	15,597,489	17,769,658	2,172,169	6.7%
43	Legal Division	16,578,371	17,596,924	1,018,553	3.0%
61	Division of Reserve Bank Operations & Payment Systems	31,090,386	33,452,682	2,362,296	3.7%
71	Office of Staff Director for Management	1,439,108	709,462	-729,646	-29.8%
74	Division of Support Services	54,801,014	58,354,084	3,553,070	3.2%
75	Division of Information Technology	69,550,529	78,066,019	8,515,490	5.9%
79	Management Division	18,819,074	21,490,763	2,671,689	6.9%
81	IRM Income	-39,375,069	-40,368,289	-993,220	1.3%
82	Residual Retirement & Insurance Benefits	4,568,088	5,788,000	1,219,912	12.6%
83	Special Projects	4,153,734	14,025,084	9,871,350	83.8%
84	Savings & Reallocation	953,577	-1,800,000	-2,753,577	N/A
85	Publications Committee	2,732,655	3,059,001	326,346	5.8%
	Total: Board	**$352,254,343**	**$387,611,318**	**$35,356,975**	**4.9%**
	Change in Software Capitalization Accounting Rules (est.)	(1,900,000)	(7,000,000)	(5,100,000)	91.9%
	Revised Board Budget	**$350,354,343**	**$380,611,318**	**$30,256,975**	**4.2%**
91	Office of Inspector General	6,418,828	6,577,806	158,978	1.2%
93	Extraordinary Items	23,009,630	7,846,760	-15,162,870	-41.6%
	Total: Other	**$29,428,458**	**$14,424,566**	**($15,003,892)**	**-30.0%**

Boardwide Budget by Account Category

Board of Governors of the Federal Reserve System

Table II

Account Category	Approved Opplan 1998-1999	Requested Funding 2000 - 2001	Difference 00/01-98/99	Annual % Change 00/01-98/99
Salaries	224,267,305	246,103,194	21,835,889	4.8%
Retirement	19,203,957	21,146,768	1,942,811	4.9%
Insurance	14,312,768	16,443,992	2,131,224	7.2%
Subtotal: Personnel Services	**$257,784,030**	**$283,693,954**	**$25,909,924**	**4.9%**
Travel	10,476,960	11,193,576	716,616	3.4%
Postage & Shipping	2,105,871	1,716,468	-389,403	-9.7%
Telecommunications	5,483,929	6,163,971	680,042	6.0%
Printing & Binding	2,280,538	2,608,000	327,462	6.9%
Publications Committee	2,817,100	2,296,730	-520,370	-9.7%
Stationery & Supplies	1,971,954	2,062,352	90,398	2.3%
Cafeteria	1,364,000	1,223,000	-141,000	-5.3%
Software	10,418,899	10,520,778	101,879	0.5%
Non-Cap Furniture & Equip	8,110,610	8,632,268	521,658	3.2%
Rentals	8,985,529	10,422,441	1,436,912	7.7%
Books & Subscriptions	1,954,229	2,108,550	154,321	3.9%
Utilities	4,418,000	4,618,525	200,525	2.2%
Repairs & Alterations	3,144,744	3,635,000	490,256	7.5%
Repairs & Maintenance	3,707,549	4,272,739	565,190	7.4%
IRM Expense/R&S	1,633,092	1,939,462	306,370	9.0%
IRM Income/R&S	-1,633,092	-1,939,462	-306,370	9.0%
Contractual Prof Srvcs	23,345,341	28,144,844	4,799,503	9.8%
Interest Expense	132,675	103,000	-29,675	-11.9%
Tuition/Registration/Memb	3,000,175	3,411,591	411,416	6.6%
Subsidies & Contributions	1,418,000	1,482,286	64,286	2.2%
All Other	2,193,931	1,583,335	-610,596	-15.0%
Reallocation & Savings	953,577	-1,800,000	-2,753,577	N/A
Depreciation	20,865,160	17,939,493	-2,925,667	-7.3%
Income	-17,227,610	-15,831,027	1,396,583	-4.1%
IRM User Charge	34,007,737	39,891,830	5,884,093	8.3%
Cafeteria Sales	-2,080,000	-2,144,000	-64,000	1.5%
Gain / Loss	-3,516	29,904	33,420	N/A
IRM Income	-39,375,069	-40,368,289	-993,220	1.3%
Subtotal: Goods + Services	**$94,470,313**	**$103,917,364**	**$9,447,051**	**4.9%**
TOTAL: Operating Funds	**$352,254,343**	**$387,611,318**	**$35,356,975**	**4.9%**
Change in Software Capitalization Accounting Rules (est.)	(1,900,000)	(7,000,000)	(5,100,000)	91.9%
Revised Operating Total	**$350,354,343**	**$380,611,318**	**$30,256,975**	**4.2%**
Capital	19,954,792	23,761,237	3,806,445	9.1%
Subtotal: Capital	**$19,954,792**	**$23,761,237**	**$3,806,445**	**9.1%**
TOTAL: Capital Funds	**$19,954,792**	**$23,761,237**	**$3,806,445**	**9.1%**
Change in Software Capitalization Accounting Rules (est.)	1,900,000	8,100,000	6,200,000	106.5%
Revised Capital Total	**$21,854,792**	**$31,861,237**	**$10,006,445**	**20.7%**

Division	Approved Opplan 1998-1999	Requested Funding 2000 - 2001	Difference 00/01-98/99
02 Office of the Secretary	65,000	95,000	30,000
21 Division of Research & Statistics	964,000	602,500	-361,500
22 Division of International Finance	163,000	192,000	29,000
23 Division of Monetary Affairs	0	175,000	175,000
41 Division of Banking Supervision & Regulation	224,969	34,000	-190,969
42 Division of Consumer & Community Affairs	8,000	12,000	4,000
43 Legal Division	0	200,000	200,000
61 Division of Reserve Bank Operations & Payment Systems	117,000	70,000	-47,000
74 Division of Support Services - EBIEP	8,435,579	11,832,237	3,396,658
74 Division of Support Services	4,495,317	3,882,500	-612,817
75 Division of Information Technology	4,868,518	6,666,000	1,797,482
79 Management Division	532,482	0	-532,482
83 Special Projects	80,927	0	-80,927
Total: Board	**$19,954,792**	**$23,761,237**	**$3,806,445**
Change in Software Capitalization Accounting Rules (est.)	1,900,000	8,100,000	6,200,000
Revised Board Budget	**$21,854,792**	**$31,861,237**	**$10,006,445**
91 Office of Inspector General	28,780	10,000	-18,780
93 Extraordinary Items	2,810,081	0	-2,810,081
Total: Other	**$2,838,861**	**$10,000**	**($2,828,861)**

	Division	1998-99 Authorization	2000-01 Proposed	Difference
01	Office of Board Members	34	34	0
02	Office of the Secretary	56	56	0
21	Division of Research & Statistics	276	278	2
22	Division of International Finance	115 [1]	119	4
23	Division of Monetary Affairs	65	65	0
41	Division of Banking Supervision & Regulation	224	220	-4
42	Division of Consumer & Community Affairs	77	78	1
43	Legal Division	82	82	0
61	Division of Reserve Bank Operations & Payment Systems	134	134	0
71	Office of Staff Director for Management	2	2	0
74	Division of Support Services	231	213	-18
75	Division of Information Technology	304	303	-1
79	Management Division	120	118	-2
83	Special Projects	1	3	2
	Total Board	**1,721**	**1,705**	**-16**
91	Office of Inspector General	29	29	0
	Total Other	**29**	**29**	**0**

[1] Includes five positions transferred from Treasury for the Treasury International Capital project.